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OFFICE OF BUDGET AND PROGRAM EVALUATION

# City of Boston

# Fiscal Year 1994 Operating Budget

## VOLUME I
## Overview of the Budget

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RAYMOND L. FLYNN, MAYOR
THOMAS G. SNYDER, DIRECTOR, ASD
BARBARA S. GOTTSCHALK, DIRECTOR, OBPE

# Fiscal Year 1994 Operating Budget

## VOLUME I
## Overview of the Budget

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# RAYMOND L. FLYNN, MAYOR

## THOMAS G. SNYDER, DIRECTOR
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with assistance from: Paul D. Parisi and Larry Kelly (MicroData, Inc.)

GOVERNMENT FINANCE OFFICERS ASSOCIATION

# *Distinguished Budget Presentation Award*

**PRESENTED TO**

**City of Boston,**

**Massachusetts**

**For the Fiscal Year Beginning**

**July 1, 1992**

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award for Distinguished Budget Presentation to the City of Boston for its annual budget for the fiscal year beginning July 1, 1992.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

## SPECIAL NOTE

In the program budgets which follow you will find many different performance measures. These performance measures include levels of service promised by departments, divisions, and program managers for FY94. The performance measures listed for each program do not, however, generally repeat existing City performance requirements which apply to all City departments. Indeed, an extra effort has been made to ensure that performance measures are relevant to the particular characteristics of each program in order to give the reader a sound understanding of the particular levels of service to be achieved as a result of the funding allocated to that program.

In addition to the stated performance measures, adherence to certain City-wide performance mandates is assumed. For example, the requirement of "operating within departmental spending authority" is an absolute. Likewise, all departments are expected to adhere to the City's Minority/Women-owned Business Enterprise policy highlighted in each departmental budget to reflect the City's commitment to this important directive.

Similarly, the City has, through the Goals process, established City-wide management goals which all departments are expected to meet. These City-wide goals relate to controlling sick leave usage, timely processing of vendor payments and minimizing absenteeism due to industrial accidents. Departments are expected to meet these goals even if no specific performance objectives are noted in their budgets. Statistics on each department's achievement of these goals are published twice a year, in addition to the other performance measures.

The purpose of program budgeting and program evaluation is to focus attention and responsibility directly upon program performance, and it is the City's intent to concentrate on that objective.

## TECHNICAL NOTE

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All production was done within the Office of Budget and Program Evaluation, with technical development and support from Paul Parisi and Larry Kelly of Micro-Data Corp., and hardware support from the City of Boston, Management Information Systems Division. Special thanks to Allan Stern and Mike Hernon in MIS.

# Fiscal Year 1994 Operating Budget

## VOLUME I
Overview of the Budget

CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
RAYMOND L. FLYNN

April 14, 1993

TO THE CITY COUNCIL

Dear Councillors:

I transmit herewith my proposed Fiscal Year 1994 operating budget for the City of Boston and County of Suffolk. I am submitting a $1.318 billion operating budget, balanced for the ninth consecutive year.

This will be the last budget I propose to the City Council as Mayor of Boston. I commend it to you confident in the knowledge that I am leaving Boston with its books balanced, with 'A' - rated credit on Wall Street - the highest ever - and with its parks, roads, and public buildings in their best physical shape in decades.

Ten years ago this month, I transmitted to the City Council my first operating budget. Together with the City Council, we have used those ten years to put in place sound financial management practices that are now deeply rooted and have allowed us to rebuild this great City of Boston.

A decade ago, Boston was weighed down by a tradition of red ink. Now, we are buoyed by a tradition of balanced budgets. Then, our infrastructure was crumbling because of a drought in capital investment. Now, we are in our eighth year of a comprehensive capital investment program. Then, Boston was effectively shut out of the capital markets, burdened by below investment grade credit. Now, Boston is a regular issuer of credit and enjoys an 'A' rating. Then, Boston's pension system was funded on a pay-as-you-go basis. Now, the City is adhering strictly to a fully funded pension schedule.

Because my Administration and the City Council have demonstrated discipline in managing the city's fiscal affairs, we have been blessed with the capacity to improve the quality of city life for residents and visitors alike. We can be justifiably proud of the qualities we have brought to the people we serve: compassion for

the less fortunate, better services for homeowners and tenants of the neighborhoods, greater access to city decision-makers, and spending within our means.

But while I am proud that we have restored Boston to the top ranks of well-managed cities, I am troubled by the service delivery and revenue problems up ahead. Boston is not alone in facing these problems. Consider the following. During 1991 and 1992, communities across the Commonwealth, rich and poor alike, suffered 24 credit rating downgrades. That is a rate of one per month, an unprecedented trend. The service reductions we are seeing in community after community are unaccepteble. We recently issued a study showing that 38 of the state's 40 cities have endured reduced police and fire protection since 1990, with many suffering uniformed staffing level cuts in excess of 20%.

I have said repeatedly and say again: these problems are not of our own making. So long as state leaders insist that municipal government rely on level funded state aid (after a $600 million cut) and restricted property tax revenues, city and town residents will experience reduced service levels. State policy is all the more unsound given how rapidly state spending is rising today. Governor Weld's last three budget submissions have seen state spending go up by $2.2 billion, a 17% hike. This compares with Boston's 1.3% increase over the same period of time, well below rising costs.

There is some reason for hope. I have met twice recently with the Governor and expressed my concern that he address this festering problem. Perhaps my departure holds out a new opportunity for this issue to be resolved absent political overtones.

Since FY 1989, only police and fire protection, public health, public education and youth services have avoided expenditure reductions. We can take pride in having done our best to protect these essential services from the sharp cuts experienced in all other areas of government operations.

My proposed FY 1994 spending plan continues these priorities. Unavoidably, scarce resources in the coming year mean that service levels must again be reduced. Police and fire staffing levels will fall. Fewer resources will be available to clean city streets and maintain city parks and playgrounds.

Funds for summer jobs will be reduced. But the anticipated continuation of stepped-up state and federal government funding of summer youth jobs means Boston will continue to have one of the nation's best summer jobs programs. For example, Boston stands to gain $40 - 50 million in new federal funds if President Clinton's economic stimulus package is approved by the Congress. Included in this figure is $14 million in Block Grants and $5 million in programs such as summer jobs.

Our support for the homeless shelter at Long Island will be maintained at current levels. The Department of Health and Hospitals will be provided with funds sufficient to maintain its $4 million in general support grants to neighborhood health centers.

Most city employees have endured three hard years of waiting for a new collective bargaining agreement. One of the toughest budget challenges I have faced as Mayor is striking the proper balance between meeting the service needs of the neighborhoods and the compensation needs of hard-working city employees.

It is no longer realistic or fair to expect city employees and their families to continue to shoulder the burden of scarce resources. The FY 1994 budget allows for a modest, but well-deserved, collective bargaining increase. Reaching an affordable agreement which balances fairness to employees with essential services for the neighborhoods is a necessary component of prudently managing Boston's long term finances.

We have realized many economies and improved productivity through careful management during tough fiscal times. There are 1,238 fewer city employees working today than when I first took office. The three year cumulative impact of spending and service reductions has now reached $260 million. This represents a significant structural downsizing in the cost of city government. Further reductions threaten to undo the solid service and fiscal foundation we have built with so much effort in the last decade. The state must act before it is too late.

Three and a half years ago, the Commonwealth sponsored a comprehensive re-examination of the state and local government fiscal relationship. Known as the Hamill Commission, it found that the system of financing local government was in disrepair. Today, if anything, the situation is worse. Boston needs an additional $40 million in recurring revenues in order to maintain current service levels, cover the cost of inflation, and rebuild depleted public safety staffing and equipment levels.

The weeks and months ahead will test our ability to move toward the shared goal of financial independence, fiscal restraint, and responsible service delivery. I look forward to your constructive analysis and support.

Sincerely,

Raymond L. Flynn

Raymond L. Flynn
Mayor of Boston

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# EXECUTIVE SUMMARY

## INTRODUCTION

Mayor Flynn's FY94 Proposed Budget represents Boston's ninth consecutive balanced budget. This Budget continues to reflect the service priorities—public safety, education, health care, and youth service—which have been the core of City spending since Boston began to deal with the consequences of local aid reductions. Because of increasing revenue constraints, however, this Budget includes service reductions affecting priority areas. However these priority services will still be funded at levels higher than FY89, unlike all other City services.

The City's commitment to balanced budgets has gained Boston a hard won reputation for sound financial management. Fiscal responsibility demands that the governing element in this Budget, as in every budget since FY89, is its revenue limitations. Boston cannot spend money it does not have.

Last November the City estimated that FY94 would require an estimated $40 million in additional recurring revenues to maintain FY93 service levels. This estimate was based on a 3 percent rate of inflation, increased fixed costs, and restoring police and fire services to their FY89 levels.

## THE REALITY OF REVENUE CONSTRAINTS

When the Commonwealth began to abandon its local aid policy in FY90, it embarked on a path that leads to a seriously flawed revenue base for cities and towns. The combined impacts of reduced local aid and the restrictions of Proposition 2 1/2 have come together to highlight the reality of a financial

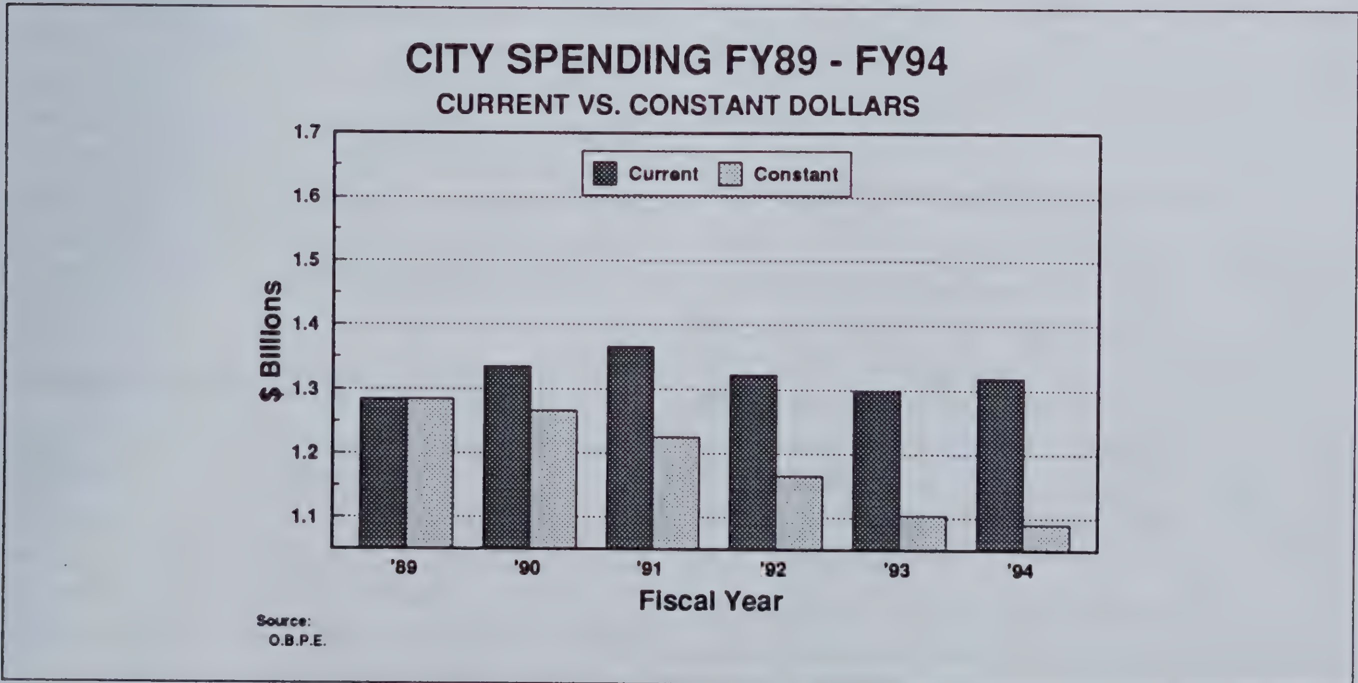


Figure 1

structure that does not work for municipalities across the Massachusetts. The problem is especially acute, however, in large urban communities that were recognized in past local aid formulas to have needs beyond what could reasonably be addressed through the property tax base.

Between FY89 and FY94, Boston's total nominal spending will increased by only 2.6 percent. In real terms this translates into a 15 percent decline. (See Figure 1.) As a result, the City has experienced a cumulative $201 million reduction in departmental spending, and most City employees have been without a collective bargaining increase for three years. The real drop in spending would have been even steeper had the City not revised its pension funding schedule, and made significant use of non-recurring revenues to mitigate the immediate impact of revenue declines on service levels.

Because of the structural link between the Commonwealth's spending priorities and Boston's revenue base, it is important to compare the change in City and state spending over the past five years. In FY90 and FY91 the Commonwealth was facing a fiscal crisis of its own. Yet state spending increased by 3 percent between FY90 and FY91. After no increase between FY91 and FY92, state spending continued to increased sharply. State budget submissions between FY92 and FY94 show state spending growing by $2.2 billion, a 17 percent increase. City budgets will decline by 2.9 percent over the same period. The change in state spending over the FY89-94 period stands in sharp contrast to the change in City spending. (See Figure 2.)

## EXPENDITURE OVERVIEW

Total departmental expenditures will increase by $9.6 million, or 1.4 percent in FY94. This includes $12.9 million for the first year of debt service on the new Boston City Hospital (BCH), a $5.1 million increase in appropriated fixed costs, and offsetting savings in other areas. As in the prior four years, reductions in administrative departments are proportionately larger than in basic service delivery departments.

Table 1 summarizes the five year impact of local aid reductions on basic service and administrative departments and the five year change in fixed costs. A summary of FY93 and FY94 appropriations by department is found in the Summary Budget.

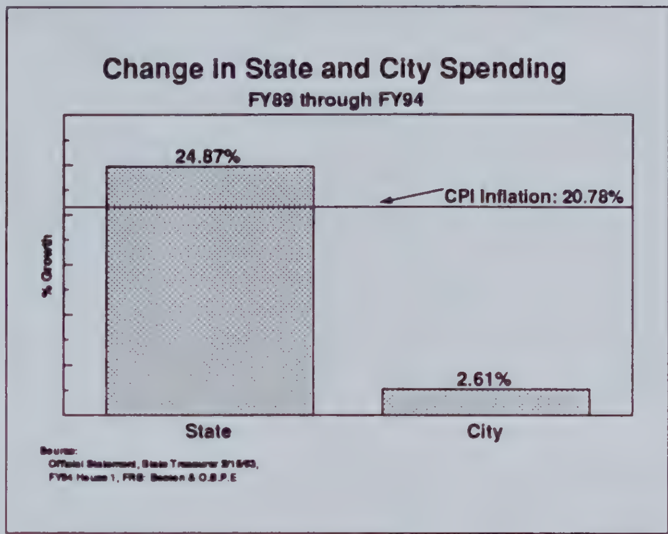


Figure 2

This Budget reflects a budgeted position quota reduction of 461 below FY93. The continuing decline in the number of City employees is stark evidence of the budget constraints the City has faced. There were 1,736 fewer City employees on April 1, 1993 than on January 1, 1989. The total number of City employees has dropped by 1,269 since January 1, 1984.

## IMPACTS ON BASIC SERVICES

Total spending for basic service departments will increase by $5.3 million (.96 percent). Four million dollars of this increase (75 percent) is the net increase in the appropriation to the Department of Health and Hospitals to cover the first year of debt service payment on the new Boston City Hospital. The balance of the increase is the net impact of a modest allowance for potential collective bargaining settlements.

**Public Safety.** Funding for the Police Department will support continued modernization of administrative and MIS systems begun in FY93. These systems will free up more officers to carry out

neighborhood policing and will support police work with new technologies to make it more effective. There are no funds for a new class of police officers. The last class (of 110 officers) was in January of 1991. Normal attrition means that the number of uniformed staff is projected to fall from a post-1981 high of 2,083 in 1991 to 1,907 by June 1993 and to 1,817 by the end of FY94. The Police Department budget does include funding for 62 unmarked vehicles, cycles, and replacement bulletproof vests and radios.

The Fire Department will add a class of 30 firefighters in May, 1993 bringing uniformed staff to 1,577 at the end of FY93. This is down from the estimated 1,630 necessary to maintain the Department's target of 300 uniformed staff on duty during all shifts. The Fire Department budget does not include funds to support an additional class beyond these 30 firefighters. Attrition will reduce uniformed strength to 1,529 by the end of FY94. The Fire appropriation includes adequate funds to support rapidly growing indemnification costs (medical expenses of sick and injured firefighters).

**Education and Youth Spending.** Recommended funding for the School Department is $374 million, level with the Department's FY93 appropriation. This amount, plus $14.3 million in state funding and $57.9 million in other external funds, will provide a total School Department budget of $446.7 million. This assumes no increased funding from education reform proposals currently before the state legislature, but also no decrease from FY93 state funding levels.

There is a $1.65 million reduction to the Youth Fund. The Youth Fund was established in FY91 and greatly expanded in FY92 to fill in a vacuum in state and federal funding for summer jobs for youth. In FY92 and FY93 the state renewed its support for summer jobs, and in FY93 the federal government, recognizing the need for these programs, also provided additional funding. The City will work aggressively to ensure that the state and federal governments continue to increase their support of summer jobs for youth, so that the FY94 summer program can be continued at its FY93 level.

**Health Care.** As noted above, the appropriation for the Department of Health and Hospitals (DHH) includes a new $12.9 million expense for the first year of debt service payments for the new BCH. The basic support grants for neighborhood health centers are funded. The appropriation also includes one-time costs related to the move into the new BCH building.

Funding is included for only three months of operation of Boston Speciality and Rehabilitation Hospital (BSRH). Because of projected operating deficits in FY93 and FY94, and City revenue constraints that limit appropriations to DHH, the Trustees of DHH have voted to close BSRH no later than September 30, 1993 unless projected volume, revenues, and costs can be revised to reflect a "break even" operation by May 31, 1993.

**Public Works.** Included in the level-funded FY94 Public Works appropriation are funds to support two significant fixed cost increases in FY94. These are a seven percent increase in electricity costs that will impact the street lighting program, and increases in garbage disposal costs. There is reduced funding for street sweeping in downtown areas, on arterial streets, and in non-posted neighborhoods. The current estimate is that there will be a nearly 30 percent drop (7 days to 5) in downtown and arterial street sweeping.

## ADMINISTRATIVE DEPARTMENTS AND FIXED COSTS

Spending on administrative agencies will drop by 2.9 percent ($887,000) between FY93 and FY94, reflecting the spending policies that have been in effect since FY90. Administrative departments have been reduced by a greater percentage than basic service departments in each successive year in an effort to provide more funding to support direct service delivery.

Spending on appropriated fixed costs (various employee benefits and executions of court) will increase by $5.2 million (6 percent). Seventy-eight percent of these fixed costs are for the City's share of employee health insurance benefits; increases in this account explain three-quarters of the total in-

crease. Nevertheless, the rate of increase in health insurance costs has slowed dramatically since January of 1991 when Mayor Flynn announced an aggressive effort to work with City employee representatives to contain these spiraling costs. While this effort continues, success to date has been significant. The average annual increase in health insurance costs between FY85-FY92 was 16.2 percent. The FY93-FY94 increase is projected to be only 5.9 percent. (See Figure 3.)

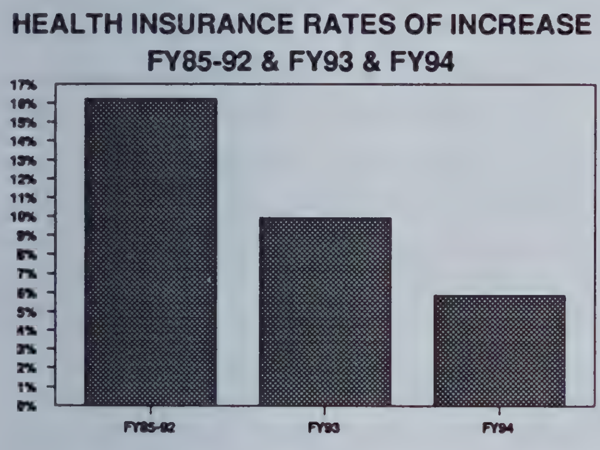


Figure 3

**Collective Bargaining.** This FY94 Proposed Budget includes a small allowance for collective bargaining settlements. Most City employees have worked without collective bargaining contracts in place for three years. Most contracts expired in FY90, and this has been a significant element in holding down total City expenditures, while minimizing service impacts since FY91.

This Budget recognizes that a responsible and balanced financial plan cannot ignore the potential cost of collectively bargained-pay increases in the long term. The allowance included in this Budget is modest, reflecting the fiscal realities facing the City, but represents a potential cost that must be accounted for.

**ENERGY SAVING INITIATIVE**

- Total City energy costs are approaching $35 million in FY93. Approved future rate increases and the proposed federal energy tax would increase energy costs significantly. A new Energy Saving Initiative will bring added analytical and education efforts to current energy saving activities.
- Since 1987 the Public Facilities Department has updated and retrofitted energy equipment in 58 City-owned buildings. Important components have included retrofitted lighting in 14 schools, modernizing the City Hall HVAC system, and plans to replace City Hall lighting.
- The Initiative, funded within the Real Property Department appropriation, will augment current retrofit efforts with increased analysis of usage patterns, reviews of City energy purchasing and pricing policies, and new attention to educating City employees about energy saving actions.

## CONTINUED COST REDUCTION EFFORTS

The City will continue aggressive cost containment efforts in several areas in FY94. The result of past health care cost control actions was discussed above. In FY94, the City will move further working with City employee representatives, to explore new managed care benefit plans and services that reduce costs while meeting the health care needs of City employees and retirees.

The Risk Management Initiative begun in late FY92 will expand. Working with a recently developed database of historical costs, the Initiative will build on training and cost analysis in FY93 to focus on ensuring that medical bill payments take advantage of available discounts, analyzing ways to reduce life insurance costs, and continuing efforts to most effectively manage worker's compensation costs.

The City is working in several ways to reduce procurement costs. It will revise its procurement policies to exempt the Department of Health and Hospitals from competitive bidding requirements

in purchasing medical and surgical supplies. This will allow DHH to take advantage of group purchase arrangements used by other private hospitals. In addition, the Office of Budget and Program Evaluation is working with the Purchasing Division to analyze the current procurement process and eliminate procedural barriers to getting the best price for purchased goods and services.

## FOR THE FUTURE

Boston enters FY94 with an eight year history of balanced budgets, its pension system showing dramatic progress toward full funding, "A" credit ratings, and parks, roads, and public buildings in the best physical condition in many years.

But the FY94 Proposed Budget includes service reductions in basic City services brought on by five years of deterioration in the City's basic revenue structure as a result of the change in the Commonwealth's local aid policies. The combined impact of inadequate local aid and the restrictions of Proposition 2 1/2 have come together to seriously threaten the delivery of necessary City services.

In FY89, the property tax represented 36 percent of the City's total revenue. In FY94 it will amount to 47 percent, a 30 percent increase. Boston's growing dependence on property tax revenues augers a future with even more service reductions. It is state laws and policies that shape and limit the structure of municipal finance in Massachusetts. It will require changes in state laws, or policies, or both, if this problem is to be solved.

## HOW TO READ THIS BUDGET

This Proposed Budget is presented in five volumes. Volume I provides an overview of the entire budget and the City's financial condition, including the budget summary, analysis and estimates of all revenue accounts, and a description of the City's financial management systems.

Volumes II-IV provide detailed information on each City department for all General Fund appropriations. This includes expenditure history, and personnel detail in summary and by program. Each program includes performance objectives and FY94 promised levels of service. Performance on selected service indicators is shown for the past four years.

Volume V presents information on non-general fund revenue, or external funds available in FY94. Information is presented by department, in a format similar to Volumes II-IV.

## TABLE 1
## COMPARISON OF FY89 AND FY94 APPROPRIATIONS

| | FY89 | FY94 | PCT. CHANGE FY89-94 |
|---|---|---|---|
| **BASIC SERVICES** | | | |
| Youth Fund | $0 | $2,100,000 | 100.00% |
| Cemetery Division | $1,236,887 | $1,393,700 | 12.68% |
| Police | $116,850,000 | $126,310,000 | 8.10% |
| Health and Hospitals | $174,225,000 | $186,600,000 | 7.10% |
| PFD/Community Centers | $8,186,580 | $8,625,400 | 5.36% |
| Fire | $80,783,312 | $83,633,000 | 3.53% |
| Transportation | $21,276,454 | $21,322,000 | 0.21% |
| Snow Removal | $2,250,000 | $2,250,000 | 0.00% |
| Boards and Commissions | $929,996 | $888,100 | -4.50% |
| Library | $19,470,280 | $18,247,000 | -6.28% |
| Registry | $691,584 | $621,600 | -10.12% |
| Election | $2,482,701 | $2,192,000 | -11.71% |
| Registry of Deeds | $1,734,736 | $1,527,800 | -11.93% |
| Rent Equity Board | $1,330,977 | $1,160,200 | -12.83% |
| Fair Housing Commission | $257,278 | $215,200 | -16.36% |
| Inspectional Services | $10,004,470 | $8,178,000 | -18.26% |
| Veterans Services | $3,029,886 | $2,413,100 | -20.36% |
| Licensing Board | $542,007 | $423,600 | -21.85% |
| Public Works | $64,900,000 | $50,417,000 | -22.32% |
| Parks and Recreation | $13,614,050 | $8,832,300 | -35.12% |
| Neighborhood Services | $1,400,838 | $897,900 | -35.90% |
| Real Property | $9,318,205 | $5,936,700 | -36.29% |
| Elderly Commission | $2,534,005 | $1,613,600 | -36.32% |
| Public Facilities | $12,515,330 | $7,101,500 | -43.26% |
| Business and Cultural Dev. | $1,424,060 | $723,800 | -49.17% |
| Consumer Affairs and Licensing | $626,422 | $290,700 | -53.59% |
| Suffolk County Sheriff | $19,747,852 | $8,938,038 | -54.74% |
| Listing Board | $450,000 | $200,000 | -55.56% |
| **TOTAL BASIC SERVICES** | $571,812,910 | $553,052,238 | -3.28% |
| | | | |
| **BOSTON PUBLIC SCHOOLS** | $355,000,000 | $374,000,000 | 5.35% |
| | | | |
| **ADMINISTRATIVE SERVICES** | | | |
| M/WBE | $179,380 | $211,600 | 17.96% |
| Labor Relations | $365,799 | $400,100 | 9.38% |
| Intergovernmental Relations | $651,111 | $653,300 | 0.34% |
| City Council | $2,474,129 | $2,470,670 | -0.14% |
| Law | $3,247,179 | $3,118,100 | -3.98% |
| Workers Comp | $395,847 | $368,800 | -6.83% |
| Health Benefits | $555,000 | $488,600 | -11.96% |
| City Clerk | $633,528 | $557,600 | -11.98% |
| Purchasing | $957,168 | $825,800 | -13.72% |
| Finance Commission | $151,362 | $127,900 | -15.50% |
| Treasury | $2,781,199 | $2,274,400 | -18.22% |
| Mayor, Office Expenses | $1,056,985 | $842,500 | -20.29% |
| Auditing | $1,658,882 | $1,314,100 | -20.78% |
| Budget and Program Evaluation | $2,655,320 | $1,802,800 | -32.11% |
| Press Office | $237,545 | $152,500 | -35.80% |
| Management Info. Services | $8,709,069 | $5,574,500 | -35.99% |
| Retirement Board | $1,749,987 | $1,081,200 | -38.22% |
| Printing | $2,136,384 | $1,274,400 | -40.35% |
| Assessing | $7,976,002 | $4,724,000 | -40.77% |
| Personnel Management | $1,826,966 | $1,046,400 | -42.72% |
| **TOTAL ADMIN SERVICES** | $40,398,842 | $29,309,270 | -27.45% |
| | | | |
| **TOTAL FIXED COSTS** | $58,110,000 | $91,400,000 | 57.29% |

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# SUMMARY BUDGET

The Proposed FY94 Budget of $1,317.8 million represents an $18.9 million increase (1.5 percent) over FY93. The FY94 Budget will be the City's ninth consecutive balanced budget. (See Figure 1.) The only significant revenue increases are in the property tax levy. Other excise, hospital, and nonrecurring revenues show declines. Total departmental appropriations increase by .9 percent, while fixed costs increase by 3.6 percent.

This Budget Summary begins with an overview of FY93, the current fiscal year, before summarizing the budget proposed for FY94.

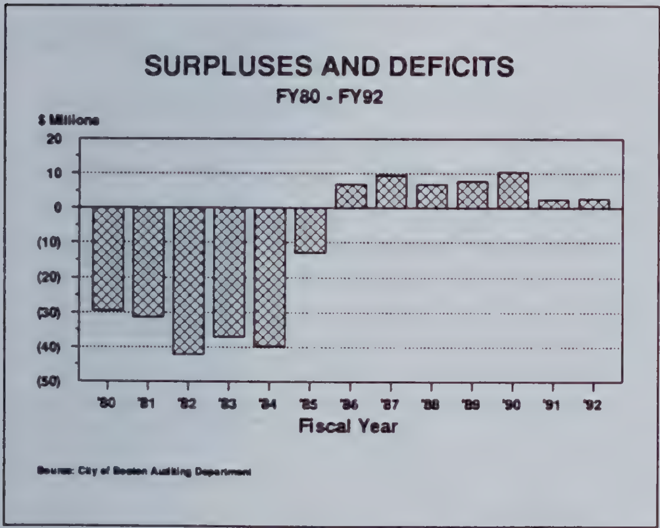


Figure 1

## OVERVIEW FISCAL YEAR 1993

Total planned FY93 expenditures on a statutory accounting basis are somewhat less than in FY92, reflecting further reductions in available revenue. On the revenue side, a $35.2 million increase in the net property tax levy is offset by significant reductions in departmental, hospital, and 121A excise revenues totalling $34.3 million. Furthermore, unlike FY92, the City does not expect to be in a position to appropriate from budgetary fund balances. In addition, there is a $21.7 million reduction in local aid; however, this reduction reflects a neutral accounting policy change by the state whereby a $21.6 million portion of the county jails appropriation is moved "off-budget" along with the $21.6 million portion of the City general revenue sharing from the Commonwealth.

Although total expenditures decline slightly, significant further departmental reductions were necessary due to a nearly $18 million increase in the four major fixed expenses: pensions, debt service, health benefits, and state assessments. This results in the second straight year of significant departmental spending reductions. Total city-funded employment, already reduced by 1,263 full-time equivalent employees since January, 1991, will be further reduced during the last quarter of FY93. Furthermore, there have been no salary increases built into the FY93 budget and no significant collective bargaining agreements have been signed since they expired, in most cases, on June 30, 1990.

### Expenditures in FY93

The City's FY93 budget includes $1.3 billion in estimated expenditures for direct departmental services and fixed expenses, representing a decrease of $22.6 million or 1.7% from FY92. (See Figure 2.) Except for the moving of $21.6 million in the county jails appropriation to an "off-budget" status, as discussed above, the FY92 and FY93 total expenditures are nearly identical. Planned FY93 departmental expenditures are expected to change from FY92 expenditures as follows: City departments, down $3.1 million or 0.6%; Department of Health and Hospitals, down $2.2 million or 1.2%; County departments, down $21.1 million or 58.7% (or, if the jail grant is added back in, up $0.4 million or 1.2%); the School Department, down $8.0 mil-

lion or 2.1%. Fixed expenses for FY93 will vary from fiscal FY92 as follows: debt service, up $5.0 million or 7.0%; state assessments, up $1.1 million or 2.0%; pensions, up $5.7 million or 5.3%; and health benefits, up $6.1 million or 9.8%.

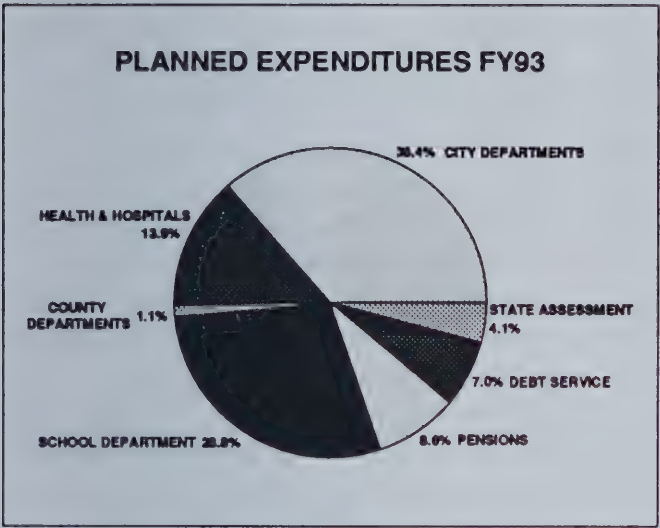


Figure 2

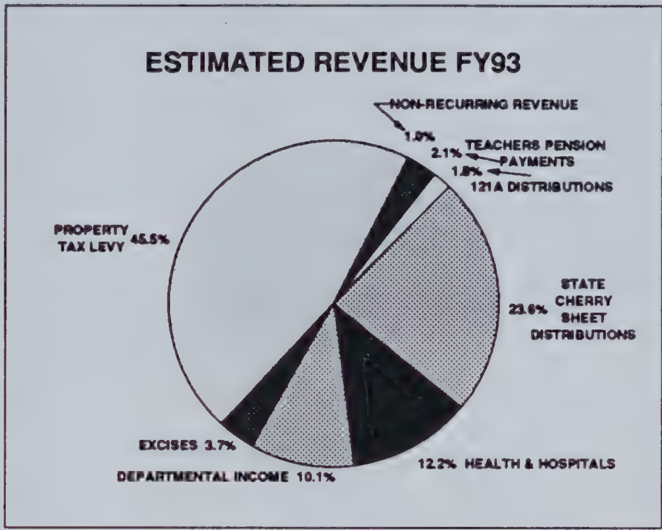


Figure 3

aid to the City's General Fund of $101.2 million has been counterbalanced by the growth over the same period in the property tax levy of $140.4 million. However, because the City's property tax has increased to 2.3% of total assessed taxable value,

## Revenues in FY93

Total revenues anticipated for FY93 amount to approximately $1.3 billion, a decrease of $25.3 million or 1.9%. (See Figure 3.) The following are the five largest differences in the City's revenue sources between FY92 and FY93. In FY93, the property tax levy (net of the overlay reserve) is up $35.2 million or 6.3%. Local aid is down $21.7 million (a decrease of 6.6%) or essentially level funded when the county jails grant is included. Departmental income is down $15.6 million or 10.6%, a decrease from FY92 due to significant one-time payments made by 121A properties in FY92. In addition, appropriations from the budgetary fund balance are down $10.9 million, and hospital receipts are down $10.2 million or 6.1%. At this time, the City is meeting its year-to-date projections in all major revenues except Health and Hospitals receipts.

The property tax levy continues to be the major source of growth in the City's revenues, sparing the City in FY93 from more dramatic reductions in services than it has recently experienced. From FY89 to FY93, the decrease in the annual level of local

the Proposition 2 1/2 levy ceiling of 2.5% of taxable value could inhibit the City's overall revenue growth by FY95, unless there is improvement in the near future in the real estate market.

**State Funding in FY93** Local aid available for the General Fund in FY93 remained essentially level. A $1.9 million increase in lottery aid was offset by modest decreases in other local aid accounts. The net effect of the state designation of funds was level funding in support of all services other than schools and jails.

The state's FY93 budget increases educational grants to municipalities. This new aid is intended as the first installment in a series of increases linked to educational reform. However, the educational reform legislation has not been finalized by the state legislature. The School Department receives $8.5 million in FY93 in new "off-budget" educational funding from the Commonwealth.

Meanwhile, the state funding link to county corrections became more direct in FY93. By removing a portion of the City's local aid from the cherry sheet and designating it as direct funding for the Suffolk County Sheriff's Department, the Sheriff's budget

was inverted: from a City-supported budget with some minor grant funding from the state, to a state-supported budget with a significant subsidy from the City.

**Hospital Revenues and Expenditures in FY93**
In FY93 the City budgeted a gap between revenues and direct appropriations of $22.8 million for the Department of Health and Hospitals (DHH). (This actually understates the amount of the City subsidy for DHH since the DHH appropriation does not include DHH's pension cost covered by the City.) The $22.8 million represents an increase of over 50% in the level of City subsidy from FY92, largely due to the following factors on the revenue side: a significant decrease in the backlog of, and thus payments related to, prior years' reimbursement settlement issues; recognition in FY92 of approximately $31 million of Health and Hospitals payments received in FY93; and the impact of recent changes in the state hospital reimbursement system.

## OVERVIEW FISCAL YEAR 1994

Total planned FY94 expenditures on a statutory accounting basis will increase modestly, but fixed costs will continue to erode the funds available to pay for services. On the revenue side, a $31.5 million increase in the net property tax levy is partially offset by reductions in other excise, hospital, and non-recurring revenues. Overall, the proposed FY94 budget includes $1.3 billion in expected revenues and planned expenditures.

### Expenditures in FY94

The City's proposed FY94 budget includes $1.3 billion in estimated expenditures for direct departmental services and fixed expenses, representing an increase of $18.9 million or 1.5% from FY93. (See Figure 4.) Planned FY94 departmental expenditures are expected to change from FY93 expenditures as follows: City departments, up $3.4 million or 0.7%; Department of Health and Hospitals, up $5.8 million or 3.2%; County departments, up $0.3 million or 2.3%. See Table 1 for a two-year comparison by appropriation. These small increases in departmental appropriations reflect the net impact of a modest allowance for potential collective bargaining settlements. In the case of DHH, however, the $5.8 million in increased appropriations reflects both certain spending reductions and the net increase of $12.9 million for the first year of debt service for the new Boston City Hospital. The School Department is level funded by the City for FY94, but may possibly receive increased funding from the state. Fixed expenses for FY94 will vary from FY93 as follows: debt service, up $0.8 million or 0.9%; state assessments, up $1.3 million or 2.5%; and pensions, up $7.2 million or 6.5%, in accordance with the City's pension funding schedule.

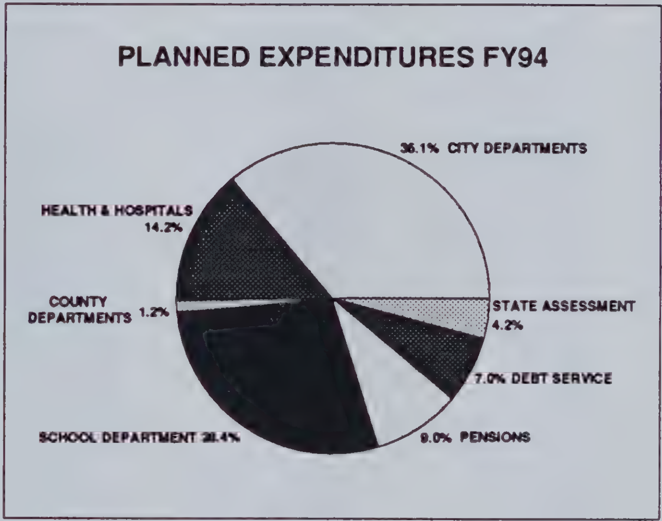


Figure 4

The FY94 Proposed Budget reflects a reduction in budgeted quota positions. With the exception of reductions in the Department of Health and Hospitals, most of this reduction is expected to be accomplished through attrition. The impact of budget reductions on City employee totals since FY89 is shown in Table 2.

### Revenues in FY94

Total revenues anticipated for FY94 amount to approximately $1.3 billion, an increase of $18.9 million or 1.5% compared to FY93. (See Figure 5.) The following are the differences between the City's revenue sources in FY93 and FY94. In FY94, the property tax levy (net of the overlay re-

## Table 1
## TWO YEAR COMPARISON OF CITY DEPARTMENTS

| Department/Division | FY93 Budget | FY94 Recommended | Variance |
|---|---|---|---|
| Administrative Services Department | 77,557,978 | 80,550,300 | 2,992,322 |
| Assessing Department | 4,740,000 | 4,724,000 | (16,000) |
| Auditing Department | 1,317,650 | 1,314,100 | (3,550) |
| Boards and Commissions, Office of | 748,094 | 888,100 | 140,006 |
| Business and Cultural Development, Office of | 865,958 | 723,800 | (142,158) |
| Cemetery Division | 1,418,076 | 1,393,700 | (24,376) |
| City Clerk Department | 547,300 | 557,600 | 10,300 |
| City Council | 2,470,670 | 2,470,670 | 0 |
| Consumer Affairs/Licensing Division | 286,165 | 290,700 | 4,535 |
| Elderly Commission | 1,637,599 | 1,613,600 | (23,999) |
| Election Department | 2,775,000 | 2,392,000 | (383,000) |
| Execution of Courts | 6,000,000 | 7,500,000 | 1,500,000 |
| Fair Housing Commission | 217,947 | 215,200 | (2,747) |
| Finance Commission | 125,470 | 127,900 | 2,430 |
| Fire Department | 83,271,500 | 83,633,000 | 361,500 |
| Health and Hospitals Department | 180,800,000 | 186,600,000 | 5,800,000 |
| Inspectional Services Department | 8,303,430 | 8,178,000 | (125,430) |
| Law Department | 3,393,650 | 3,118,100 | (275,550) |
| Library Department | 18,500,000 | 18,247,000 | (253,000) |
| Licensing Board | 425,000 | 423,600 | (1,400) |
| Management Fund | 220,000 | 210,000 | (10,000) |
| Mayor, Office Expenses | 830,000 | 842,500 | 12,500 |
| Medicare Payments | 1,260,000 | 1,340,000 | 80,000 |
| Neighborhood Services, Office of | 906,775 | 897,900 | (8,875) |
| Parks and Recreation Department | 8,841,750 | 8,832,300 | (9,450) |
| Pensions and Annuities - City | 7,820,000 | 7,200,000 | (620,000) |
| Police Department | 125,340,042 | 126,310,000 | 969,958 |
| Press Office | 150,000 | 152,500 | 2,500 |
| Public Facilties Department | 7,150,269 | 7,101,500 | (48,769) |
| PFD - Community Centers | 8,395,000 | 8,625,400 | 230,400 |
| Public Works Department | 50,225,000 | 50,417,000 | 192,000 |
| Real Property Department | 6,246,100 | 5,936,700 | (309,400) |
| Registry Division, City Clerk Department | 615,235 | 621,600 | 6,365 |
| Rent Equity Board | 1,140,000 | 1,160,200 | 20,200 |
| Retirement Board | 1,076,634 | 1,081,200 | 4,566 |
| Safe Neighborhoods, Office of | 310,000 | 315,300 | 5,300 |
| Snow Removal | 2,250,000 | 2,250,000 | 0 |
| Transportation Department | 23,109,594 | 23,550,400 | 440,806 |
| Treasury Department | 2,245,000 | 2,274,400 | 29,400 |
| Unemployment Compensation Fund | 50,000 | 50,000 | 0 |
| Veterans Services Department | 2,500,545 | 2,413,100 | (87,445) |
| Workers Compensation Fund | 2,250,000 | 2,660,000 | 163,100 |
| Youth Fund | 3,750,000 | 2,100,000 | (1,090,000) |
| **TOTAL CITY DEPARTMENTS** | **652,083,431** | **661,303,370** | **9,533,039** |

Table 1

## TWO YEAR COMPARISON OF COUNTY DEPARTMENTS

| Department/Division | FY93 Budget | FY94 Recommended | Variance |
|---|---|---|---|
| Administrative Services Department | 3,093,000 | 3,396,000 | 303,000 |
| Medicare Payments | 190,000 | 210,000 | 20,000 |
| Pensions and Annuities- County | 650,000 | 600,000 | (50,000) |
| Registry of Deeds | 1,500,000 | 1,527,800 | 27,800 |
| Suffolk County Sheriff's Department | 8,938,038 | 8,938,038 | 0 |
| Workers Compensation Fund | 500,000 | 540,000 | 40,000 |
| **TOTAL COUNTY DEPARTMENTS** | **14,871,038** | **15,211,838** | **340,800** |

serve) is expected to be up $31.5 million or 5.3% and the teachers pension reimbursement is expected to rise $0.8 million or 3.0%. Other excises are down $2.4 million or 5.0%. Hospital revenues decline an additional $1.9 million or 1.2%. Local aid is down $0.3 million or 0.1%. The City's dependence on one-time revenues will be lower with the reduction in non-recurring revenue of $8.9 million.

**CHANGES IN CITY PERSONNEL**
**(FTEs as of January 1)**

| | 1984 | 1987 | 1989 | 1991 | 1993 |
|---|---|---|---|---|---|
| City | 11,686 | 11,699 | 12,156 | 11,624 | 10,518 |
| County | 613 | 669 | 491 | 641 | 955 |
| Schools | 6,286 | 6,905 | 7,247 | 7,007 | 6,536 |
| Total | 18,585 | 19,273 | 19,894 | 19,272 | 18,009 |

Table 2

The property tax levy continues to be the major source of growth in the City's revenues, sparing the City in FY94 from more severe reductions in services. Between FY89 and FY94, the decrease in the annual level of local aid to the City's General Fund of $101.5 million has been counterbalanced by the growth over the same period in the property tax levy of $162.2 million. Because the City's net effective property tax rate is projected to go above $24.00 in FY94, Proposition 2 1/2's cap on that rate at 2.5% would become a critical factor for the City's overall revenue growth in coming years should there be any further significant decreases in the real estate market resulting in reduced assessed taxable value. Decreases of 18.1% and 8.4% in FY92 and FY93 valuations were the major cause of the net effective tax rate increasing from 1.5% in FY91 to 2.3% in FY93.

**State Funding in FY94** Local aid available for the General Fund in FY94 decreases slightly. School construction aid accounts for the decline of $0.3 million in the total. All of the local aid projections for FY94 are subject to change due to legislative and executive action at the state level.

The state's FY93 budget contained an increase in aid to municipalities, but it came in a new form: grants earmarked for education. These new grants are intended as the first installment in a series of increases linked to educational reform. As mentioned previously, the educational reform legislation has not been finalized by the legislature to date. The Governor's budget proposal for FY94 has eliminated the $8.5 million in state education grants received by the School Department in FY93 and used these funds to support other areas, linking the restoration of education grants to successful passage of a school reform bill. Restoration of this "off-budget" money may include an increase in FY94.

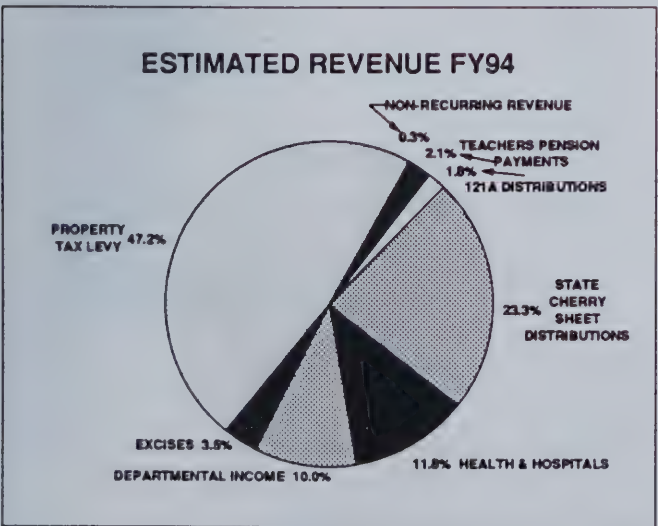


Figure 5

## CITY OF BOSTON BUDGET SUMMARY

Dollars in Millions

| | FY 89 ACTUAL | FY90 ACTUAL | FY91 ACTUAL | FY92 ACTUAL | FY93 BUDGET | FY94 BUDGET |
|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | |
| PROPERTY TAX LEVY | 484.3 | 520.9 | 555.6 | 583.3 | 624.66 | 653.30 |
| OVERLAY RESERVE | (24.3) | (26.0) | (26.4) | (27.8) | (34.00) | (31.11) |
| MOTOR VEHICLE EXCISE | 25.8 | 20.0 | 18.9 | 18.9 | 23.72 | 20.52 |
| ROOM OCCUPANCY EXCISE | 13.6 | 13.9 | 14.7 | 12.9 | 13.00 | 14.10 |
| JET FUEL EXCISE | 13.0 | 13.2 | 13.3 | 11.6 | 11.70 | 11.40 |
| DEPARTMENTAL INCOME | 144.8 | 161.3 | 147.6 | 146.9 | 131.35 | 131.43 |
| HEALTH AND HOSPITALS | 154.7 | 158.0 | 179.9 | 168.2 | 158.00 | 156.10 |
| STATE AID DISTRIBUTIONS | 408.1 | 407.4 | 369.9 | 328.6 | 306.85 | 306.56 |
| 121A DISTRIBUTIONS | 32.5 | 33.0 | 30.1 | 32.2 | 23.70 | 23.70 |
| TEACHERS PENSION PAYMENTS | 22.2 | 23.0 | 26.0 | 26.4 | 27.18 | 28.00 |
| REVENUE SHARING | 0.0 | 0.0 | 0.0 | 0.0 | 0.00 | 0.00 |
| BUDGETARY FUND BALANCE | 15.0 | 20.0 | 38.6 | 10.9 | 0.00 | 0.00 |
| **TOTAL RECURRING REVENUE** | 1,289.8 | 1,344.6 | 1,368.0 | 1,312.2 | 1,286.16 | 1,313.99 |
| **NON-RECURRING REVENUE** | 2.0 | 0.0 | 0.0 | 12.0 | 12.76 | 3.84 |
| **TOTAL REVENUES** | 1,291.8 | 1,344.6 | 1,368.0 | 1,324.2 | 1,298.93 | 1,317.83 |
| **EXPENDITURES** | | | | | | |
| CITY DEPARTMENTS | 467.7 | 495.3 | 497.3 | 475.8 | 472.72 | 476.14 |
| HEALTH & HOSPITALS | 179.4 | 186.8 | 194.4 | 183.0 | 180.80 | 186.60 |
| COUNTY DEPARTMENTS | 26.1 | 29.0 | 34.0 | 36.0 | 14.87 | 15.21 |
| SCHOOL DEPARTMENT | 355.4 | 374.4 | 389.0 | 382.0 | 374.00 | 374.00 |
| **TOTAL APPROPRIATIONS** | 1,028.7 | 1,085.6 | 1,114.6 | 1,076.8 | 1,042.39 | 1,051.95 |
| PENSIONS | 120.5 | 114.2 | 113.2 | 106.3 | 112.01 | 119.25 |
| DEBT SERVICE | 78.3 | 82.6 | 86.0 | 86.0 | 91.06 | 91.84 |
| STATE ASSESSMENTS | 48.3 | 50.3 | 51.3 | 52.4 | 53.46 | 54.80 |
| RESERVE | 3.9 | 0.7 | 0.3 | 0.0 | 0.00 | 0.00 |
| **TOTAL FIXED COSTS** | 251.1 | 247.8 | 250.9 | 244.8 | 256.54 | 265.88 |
| **TOTAL RECURRING EXPENDITURES** | 1,279.7 | 1,333.3 | 1,365.5 | 1,321.6 | 1,298.93 | 1,317.83 |
| OPERATING DEFICIT-PRIOR YEAR | 0.0 | 0.0 | 0.0 | 0.0 | 0.00 | 0.00 |
| OVERLAY DEFICIT - PRIOR YEAR | 4.2 | 1.0 | 0.0 | 0.0 | 0.00 | 0.00 |
| **PRIOR YEAR DEFICIT** | 4.2 | 1.0 | 0.0 | 0.0 | 0.00 | 0.00 |
| **TOTAL EXPENDITURES** | 1,284.0 | 1,334.3 | 1,365.5 | 1,321.6 | 1,298.93 | 1,317.83 |
| **SURPLUS (DEFICIT)** | 7.8 | 10.3 | 2.6 | 2.6 | 0.00 | 0.00 |

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# CITY OF BOSTON
## IN CITY COUNCIL

## APPROPRIATION AND TAX ORDER FOR THE FISCAL YEAR COMMENCING JULY 1, 1993 AND ENDING JUNE 30, 1994

ORDERED:

I. That to meet the current expenses of the City of Boston and the County of Suffolk, in the fiscal year commencing July 1, 1993 and ending June 30, 1994, the respective sums of money specified in the schedules hereinafter set out, be, and the same hereby are, appropriated for expenditure under the direction of the respective boards and officers severally specified, for the several specific purposes hereinafter designated and, except for transfers lawfully made, for such purposes only — said appropriations, to the extent they are for the maintenance and operation of parking meters, and the regulation of parking and other activities incident thereto (which is hereby determined to be $9,000,000), being made out of the income from parking meters and, to the extent they are for other purposes, being made out of the proceeds from the sale of tax title possessions and receipts from tax title redemptions, in addition to the total real and personal property taxes of prior years collected from July 1, 1992 up to and including March 31, 1993, as certified by the City Auditor under Section 23 of Chapter 59 of the General Laws, and out of available funds on hand July 1, 1993, as certified by the Director of Accounts under said Section 23, and the balance of said appropriations to be raised by taxation pursuant to said Section 23:—

# CITY DEPARTMENTS

| Account | Department | Personal Services | Contractual Services | Supplies and Materials | Current Charges and Obligations | Equipment | Special Appropriation | Structures and Improvements | Land and Non Structural Improv to Land | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| 011-140-0000 | Administrative Services Department | 9,586,849 | 1,486,796 | 227,530 | 69,074,965 | 57,460 | 116,700 | | | 80,550,300 |
| 011-136-0136 | Assessing Department | 4,070,080 | 213,180 | 56,250 | 384,490 | | | | | 4,724,000 |
| 011-131-0131 | Auditing Department | 1,245,985 | 54,820 | 8,320 | 3,700 | 1,275 | | | | 1,314,100 |
| 011-401-0401 | Boards and Commissions | 678,136 | 193,864 | 12,400 | 3,700 | | | | | 888,100 |
| 011-415-0415 | Business and Cultural Development, Office of | 294,303 | 208,897 | 6,000 | 600 | | 214,000 | | | 723,800 |
| 015-400-3321 | Cemetery Division, Parks & Recreation Department | 565,786 | 109,500 | 66,500 | 20,914 | 11,000 | | | 20,000 | 793,700 |
| 011-161-0161 | City Clerk Department | 523,018 | 21,082 | 12,000 | 1,500 | | | | | 557,600 |
| 011-112-0112 | City Council | 2,250,320 | 138,950 | 47,300 | 33,800 | 300 | | | | 2,470,670 |
| 011-114-0114 | Consumer Affairs and Licensing Office of | 264,600 | 18,600 | 5,700 | 1,800 | | | | | 290,700 |
| 011-387-0387 | Elderly, Commission on Affairs of | 1,415,374 | 114,750 | 40,750 | 31,726 | 11,000 | | | | 1,613,600 |
| 011-121-0000 | Election Department | 2,116,950 | 184,800 | 45,400 | 35,350 | 9,500 | | | | 2,392,000 |
| 011-333-0333 | Execution of Courts, Damage Claims and Reimbursements | | | | | | 7,500,000 | | | 7,500,000 |
| 011-403-0403 | Fair Housing Commission | 187,747 | 21,000 | 4,521 | 1,932 | | | | | 215,200 |
| 011-193-0193 | Finance Commission | 124,350 | 2,050 | 400 | 1,100 | | | | | 127,900 |
| 011-221-0221 | Fire Department | 78,987,800 | 1,894,460 | 1,712,600 | 1,004,140 | 34,000 | | | | 83,633,000 |
| 011-610-0600 | Health and Hospitals Department | 95,265,700 | 47,915,000 | 12,991,500 | 3,420,500 | 686,000 | 26,321,300 | | | 186,600,000 |
| 011-261-0260 | Inspectional Services Deptartment | 6,724,280 | 752,520 | 110,200 | 544,000 | 47,000 | | | | 8,178,000 |
| 011-151-0151 | Law Department | 2,247,680 | 727,500 | 37,750 | 51,770 | 53,400 | | | | 3,118,100 |
| 011-110-0110 | Library Department | 13,163,643 | 2,587,357 | 2,061,000 | 410,000 | 25,000 | | | | 18,247,000 |
| 011-252-0252 | Licensing Board | 389,417 | 23,318 | 7,020 | 3,345 | 500 | | | | 423,600 |
| 011-175-0175 | Management Fund | | 210,000 | | | | | | | 210,000 |
| 011-111-0111 | Mayor, Office Expenses | 773,485 | 57,515 | 8,000 | 3,500 | | | | | 842,500 |
| 011-139-0139 | Medicare Payments | | | | | | 1,340,000 | | | 1,340,000 |
| 011-412-0412 | Neighborhood Services, Office of | 822,773 | 47,857 | 27,000 | 270 | | | | | 897,900 |
| 011-300-0301 | Parks and Recreation Department | 6,345,300 | 1,326,505 | 278,495 | 395,000 | 30,000 | 402,000 | | 55,000 | 8,832,300 |
| 011-374-0374 | Pensions and Annuities - City | | | | | | 7,200,000 | | | 7,200,000 |
| 011-211-0211 | Police Department | 112,013,523 | 5,070,105 | 5,177,969 | 3,713,253 | 335,150 | | | | 126,310,000 |
| 011-411-0411 | Press Office | 143,400 | 6,600 | 500 | 2,000 | | | | | 152,500 |
| 011-188-0000 | Public Facilities Department | 5,082,650 | 1,492,250 | 265,650 | 253,000 | 7,950 | | | | 7,101,500 |
| 011-188-0000 | PFD/Community Schools | 6,068,805 | 1,677,225 | 144,000 | 224,320 | | 511,050 | | | 8,625,400 |
| 011-311-0311 | Public Works Department | 12,981,681 | 35,859,743 | 924,376 | 500,450 | 750 | | 150,000 | | 50,417,000 |
| 011-180-0000 | Real Property Department | 2,960,392 | 2,871,356 | 82,500 | 21,004 | 1,448 | | | | 5,936,700 |
| 011-163-0163 | Registry Division, City Clerk Department | 589,490 | 21,800 | 8,200 | 1,900 | 210 | | | | 621,600 |
| 011-384-0384 | Rent Equity Board | 1,062,835 | 57,965 | 35,900 | 3,500 | | | | | 1,160,200 |
| 011-192-0192 | Retirement Board | 1,081,200 | | | | | | | | 1,081,200 |
| 011-115-0115 | Safe Neighborhood | 288,985 | 20,315 | 4,000 | 2,000 | | | | | 315,300 |
| 011-331-0331 | Snow Removal | | | | | | 2,250,000 | | | 2,250,000 |
| 011-251-0250 | Transportation Department | 14,488,345 | 7,093,805 | 739,750 | 1,067,500 | 161,000 | | | | 23,550,400 |
| 011-137-0000 | Treasury Department | 1,782,240 | 127,330 | 340,150 | 22,030 | 1,650 | 1,000 | | | 2,274,400 |
| 011-199-0199 | Unemployment Compensation | 50,000 | | | | | | | | 50,000 |
| 011-740-0000 | Veterans Services Department | 667,818 | 119,180 | 8,000 | 1,618,102 | | | | | 2,413,100 |
| 011-341-0342 | Workers Compensation Fund | | | | | | 2,660,000 | | | 2,660,000 |
| 011-448-0448 | Youth Fund | | | | | | 2,100,000 | | | 2,100,000 |
| | **TOTAL CITY DEPARTMENTS** | **387,304,940** | **112,727,995** | **25,497,631** | **82,857,161** | **1,474,593** | **50,616,050** | **150,000** | **75,000** | **660,703,370** |

## COUNTY DEPARTMENTS

| Account | Department | Personal Services | Contractual Services | Supplies and Materials | Current Charges and Obligations | Equipment | Special Appropriation | Structures and Improvements | Land and Non Structural Improv to Land | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| 011-140-0000 | Administrative Services Department | 96,000 | | | 3,300,000 | | | | | 3,396,000 |
| 014-139-0139 | Medicare Payments | | | | | | 210,000 | | | 210,000 |
| 014-749-1375 | Pensions and Annuities - County | | | | | | 600,000 | | | 600,000 |
| 014-745-0165 | Registry of Deeds | 1,421,800 | 70,000 | 29,800 | 6,200 | | | | | 1,527,800 |
| 014-747-0000 | Suffolk County Sheriff's Department | 8,938,038 | | | | | | | | 8,938,038 |
| 011-341-0342 | Workers Compensation Fund | | | | | | 540,000 | | | 540,000 |
| | **TOTAL/COUNTY** | **10,455,838** | **70,000** | **29,800** | **3,306,200** | **0** | **1,350,000** | | | **15,211,838** |

FURTHER ORDERED:

II. That to meet so much of the expenses of maintaining, improving and embellishing in the fiscal period commencing July 1, 1993 and ending June 30, 1994, cemeteries owned by the City of Boston, or in its charge, as is not met by the income of deposits for perpetual care on hand December 31, 1992, the respective sum of money specified in the subjoined schedule be, and the same hereby is, appropriated out of the fund set up under Chapter 13 of the Acts of 1961 — the same to be expended under the direction of the Commissioner of Parks and Recreation:—

015-400-3321
CEMETERY DIVISION
PARKS AND RECREATION DEPARTMENT

| | |
|---|---|
| Personal Services | $ 600,000 |

CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
RAYMOND L. FLYNN

April 14, 1993

TO THE CITY COUNCIL

Dear Councillors:

I transmit herewith an appropriation order in the amount of $374,000,000 for the Boston School Department for FY94, submitted pursuant to the provisions of Chapter 224 of the Acts of 1936, as amended by Chapter 190 of the Acts of 1982, as further amended by Chapter 701 of the Acts of 1986, Chapter 613 of the Acts of 1987 and Chapter 108 of the Acts of 1991.

This requested appropriation when combined with the $4.5 million in state Equal Educational Opportunity Grant and federal Impact Aid, will make available to the School Department $378.5 million for FY94 in direct operating funds. The School Department projects an additional $68.2 million in categorical grant funds, for a total operating budget of $446.7 million. In addition, the City's FY94 Capital Plan outlines $191.5 million in school investment, a $13.3 million increase over last year's plan.

With the City facing the fourth consecutive year of decreasing or level local aid, I have made the difficult, but necessary decision to level fund the School Department in FY94. The School Committee and Superintendent have worked diligently to allocate available revenues to direct instructional services, despite a $4 million increase in fixed costs.

Over the last four years it has been my goal to hold harmless essential basic services such as education, public safety and public health and make reductions in

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administrative departments. Between FY89 and FY94, the School Department's appropriation increased by 5.35%, the Department of Health and Hospital's by 7.11%, the Community Centers's by 5.36%, the Fire Department's by 3.53%, and the Police Department's by 8.10%, while administrative departments budgets decreased 27.4% over the same period.

For the second consecutive year, the School Committee submitted a budget within appropriation. At the same time the Committee is looking forward to ending FY93 with a balanced budget for the third consecutive year. In FY94 an automated school-based budget development process has been implemented, resulting in better coordination of general funds and external funds. A significant step has been made in the fiscal accountability of the Boston School Committee.

Even as I transmit this appropriation for your review, a Joint Legislative Conference Committee is discussing education reform legislation. While your review of the School Department's budget is taking place, agreement on education reform may lead to change and additional funding for Boston. It is my great hope that these discussions not only result in some additional funding for Boston but make a true reform in education long needed across the Commonwealth.

I respectfully request your support of the FY94 appropriation for the Boston School Department.

Sincerely,

Raymond L. Flynn

Raymond L. Flynn
Mayor of Boston

# CITY OF BOSTON
## IN CITY COUNCIL

ORDERED:

That pursuant to Chapter 224 of the Acts of 1936, as amended by Chapter 190 of the Acts of 1982, and as further amended by Chapter 701 of the Acts of 1986, Chapter 613 of the Acts of 1987, and Chapter 108 of the Acts of 1991, to meet the current operating expenses of the School Department in the fiscal period commencing July 1, 1993 and ending June 30, 1994, the sum of THREE HUNDRED SEVENTY-FOUR MILLION DOLLARS ($374,000,000) be, and the same hereby is, appropriated, said sum to be raised by taxation pursuant to Section 23 of Chapter 59 of the General Laws: —

| | |
|---|---|
| School Department | $374,000,000 |

SICUT PATRIBUS SIT DEUS NOBIS.

BOSTONIA.

CONDITA A.D.

1630.

CIVITATIS REGIMINE DONATA A.D. 1822.

# FINANCIAL MANAGEMENT OF THE CITY

Since 1984 the City has worked to restore and maintain a healthy financial base from which to support City services in a way that reflects mayoral priorities. This objective has been realized through a firm commitment to balanced budgets, new financial management systems, aggressive efforts to secure sound recurring revenues, and responsible spending reductions in light of local aid cuts. The result has been that the City ended FY86 with a surplus after ten consecutive years of operating budget deficits; significant reserves were accumulated during the FY86-FY89 period when City revenues were increasing at annual rate of 8.2 percent; and careful management of spending reductions generally avoided layoffs and protected basic services for the past four years.

This Chapter summarizes the City's financial management strategy by describing the offices and systems that implement that strategy, reviewing the City's capital borrowing, and debt and pension

## BRIEF HISTORY OF FISCAL MILESTONES

- Proposition 2 1/2, the referendum ballot question that sharply curtailed City revenues after its passage in 1981, continues as the preeminent element in defining the City's financial structure today. This is because, unlike most other large U.S. cities, Boston has no local sales or income tax to diversify its revenue base. Upon passage, Proposition 2 1/2 required the City to reduce property tax revenues by 37 percent over a 3 year period. This reduction imposed severe financial constraints until FY86 and resulted in the City's bond rating dropping to below investment grade.

  The impact of Proposition 2 1/2 reductions on basic services like public safety, youth services and street cleaning encouraged the Governor and Legislature to share the state's growing sales, income and corporate tax revenues through local aid increases, and supported the City's successful effort in 1985 to establish the local option jet fuel and room occupancy excises.

- FY87-89 were years in which a strong local economy and increased local aid led to steady growth in City revenues. The downtown construction boom created an average $35 million annual increase in net property tax revenues within Proposition 2 1/2 restrictions. Total revenues grew by $250 million between FY86 and FY89, and year-end balances averaging $7.7 million reflected a prudent spending pattern despite substantial revenue increases.

- The onset of the Commonwealth's fiscal crisis and a small decline in local aid in FY90 slowed overall FY89-FY90 revenue growth to 4.1 percent. The following two years saw a steep local aid decline, followed by level funding in FY93. Between FY89 and FY92 Boston lost $80 million in local aid. Local aid dropped from 32 percent of local revenue to 23 percent in FY94. Total City revenue in FY94 will be $28.9 million less in nominal terms than in FY91. This drop has resulted in significant downsizing of City government. There are 1,269 fewer City employees now than in January, 1984, and 1,719 fewer than in July, 1989.

**FINANCIAL/MANAGEMENT MILESTONES**

- 1980 Proposition 2 1/2 enacted.
- 1981 Bond ratings withdrawn.
- 1983 First full valuation of all City property.
- 1984 Office of Capital Planning established.
- 1985 Jet fuel and room occupancy excises enacted.

  Revaluation of all City property.

  First five year capital plan issued.

  Moody's raises rating to Baa.
- 1986 Program budget system established.

  LGFS financial and accounting system on line.
- 1987 State pension reform adopted. Boston commits to full funding schedule.

  Moody's raises rating to Baa1.

  S&P raises rating to A-.
- 1988 Last short term-borrowing to meet cash flow needs.

  Revaluation of all City property.

  Moody's raises rating to A.
- 1989 S&P raises rating to A.
- 1990 First year of "full funding" pension schedule.
- 1991 Switch from elected to appointed School Committee.

  Revaluation of all City property.

  Health Insurance cost containment initiative.
- 1992 Conversion to quarterly tax bills.

  Revised pension schedule shortens schedule to reach full funding.

  Risk Management initiative.
- 1993 Energy cost control initiative .

  Fixed income account group established.

management systems, and summarizing key management initiatives since 1984.

## RESPONSIBLE OFFICIALS AND AGENCIES

Boston's financial operations are ultimately directed by the Mayor. The Mayor is the chief executive officer of the City and has general supervision of and control over the boards, commissions, officers, and departments of the City. The Director of the Administrative Services Department is the City's chief operating officer. City budget appropriations for all departments and operations of the City and Suffolk County, except the School Department and the county courts, are prepared by the Office of Budget and Program Evaluation (OBPE), a part of the Administrative Services Department, under the direction of the Mayor.

Four other officers and their departments have major roles in the City's financial structure.

The Collector-Treasurer is responsible for supervising the Treasury Department, collecting revenues due to the City and Suffolk County, and paying all amounts due for payrolls and to outside vendors. The Collector-Treasurer also manages the investment of City funds, and supervises borrowings by the City in the form of either short-term or long-term debt.

The Auditor monitors internal controls, manages grant funds, provides financial reports, maintains books and records of the City and County, and approves all payments made by the City and County. The Auditor is an ex-officio member of the State-Boston Retirement Board.

The Commissioner of Assessing supervises the Assessing Department and the valuation, for tax levy purposes, of real and personal property located in the City.

The Deputy Director responsible for the Public Facilities Department's Division of Capital Planning prepares and monitors the City's capital budget and coordinates the long-range capital planning activities of City, County, and School departments.

Two decision-making bodies also fill prominent roles in the City's budget process. The legislative body of the City is the Council, which consists of 13 members serving two-year terms. Four are elected at-large and nine are elected from geographic districts. The Council may enact ordinances and adopt orders which the Mayor may either approve or veto. Except for orders borrowing or appropriating money, the Council may override a mayoral veto by a two-thirds vote. The Council may reject or reduce a budget submitted to it by the Mayor, but may not increase it. For a description of the operating budget process see "Program Budgeting" and "Budget Organization and Glossary."

The City's public schools are under the control of the School Committee, which, as of January, 1991, is appointed by the Mayor. The School Department operating budget is submitted to the Mayor and City Council as part of a budget process parallel to, but separate from, the City and County.

Until FY91, the School Department regularly incurred operating deficits. Chapter 613 of 1987 placed stricter controls on the School Department's appropriation process, in an attempt to limit the potential for overexpenditure, and strengthened the powers of the superintendent vis-a-vis the School Committee. The Department, however, continued to deficit-spend. As a result the City needed to ensure that other City spending remained below available revenues in order to maintain a year-end surplus. These annual School Department deficits continued through FY90, ending only with the creation of an appointed School Committee accountable to the Mayor.

## PENSION MANAGEMENT

Putting Boston's financial house in order has required the City to make substantial improvement in the funding of the City's employee pension system. Prior to 1987, the City's annual pension contribution was on a pay-as-you-go basis with annual contributions determined by the Public Employee Retirement Administration. The 1987 Commonwealth Pension Reform Act gave local retirement systems the option to fundamentally change their method for financing retirement costs. Boston's State-Boston Retirement System became the first local system to elect the "fully-funded" option and committed to switching to a fully funded method of financing, beginning in FY90. This change impacted the City's long-term outlook on pension costs.

Under the old pay-as-you-go method, the actual pension payroll for current retirees serves as the main basis for each year's pension appropriation. Under this method, a newly founded system has very little expense for the first several years. As a greater number of employees retire, however, actual pension costs rise significantly and continue to rise for many years. At a certain point a retirement system "matures;" a full complement of retirees passes through the system, and the number of retirees on the pension payroll stabilizes. This state of maturity contributes to the fiscal soundness of a retirement system. Boston's retirement system reached "maturity" several years ago.

Under a fully funded method of financing, a system sets aside funds for future pension liabilities as they are incurred by current employees. An actuarial determination is made as to what percentage of the personnel payroll is sufficient to fund the future retirement costs accrued by employees for any given year. The resulting future liability incurred during any one year is called the "normal cost." Under the 1987 Pension Reform Act, the conversion from a pay-as-you-go system to a fully funded system can involve a transition of up to 40 years. During that transition the "unfunded accrued pension liability" is gradually reduced to zero.

Until the City's unfunded pension liability is reduced to zero, the City's annual pension costs will essentially consist of two components — the "normal cost" and the amortized portion of the unfunded liability. These components are laid out in a funding schedule that is updated periodically until the unfunded pension liability is eliminated. At that point, the "normal cost," or currently incurred liability, will be the only pension cost which the City will have to continue to fund.

A home-rule petition (Chapter 450) enacted in December, 1991, amended the allowable structure under which the City's pension funding schedule is developed. Using this flexibility, the State-Boston Retirement System revised the funding schedule to fully fund the system over a shorter time period (the next 29 rather than 37 years), and incorporated the system's significant actuarial gains of the last three years into the first half of the schedule.

As a result, Boston's pension appropriation decreased by over 10 percent for FY92 through FY94. Meanwhile, the outlook for the next pension funding schedule update, mandated for no later than FY95, appears favorable. The City had one of its highest rates of return on asset investment during 1991, and pension liabilities are not growing because of severe pressure to control payroll spending. (Figure 1.)

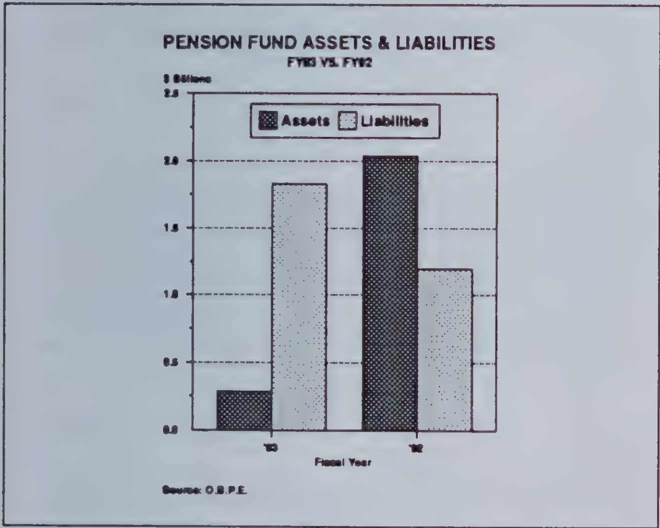

Figure 1

## INFRASTRUCTURE, CAPITAL PLANNING AND DEBT MANAGEMENT

In 1984 Boston had no capital planning process, no capital budget, and no ability to raise capital to make improvements because the City's bond rating had been suspended. Since 1984 the City has raised its ratings to historical highs and has made extensive capital improvements through a capital budgeting process. The City's seventh consecutive 5-year capital budget was released in February, 1993.

The Mayor's Office of Capital Planning was created in FY85. Now a program in the Public Facilities Department, the Division of Capital Planning (DCP) evaluates the condition of the City's capital stock, forecasts the timing and financial requirements of new construction and rehabilitation, and recommends allocation of current and future resources to meet the City's infrastructure and capital requirements. Resource availability and capital needs are assessed frequently and appropriate planning responses taken. This ongoing process is documented by an annually updated five-year capital plan.

In addition to its planning functions, DCP also plays an ongoing construction management and supervisory role during the implementation phase of its capital projects. DCP reviews and approves all capital contracts and monitors project costs and schedules to ensure the adequacy of available funding sources.

Working closely with DCP, the Collector-Treasurer supervises the City's capital borrowing, consistent with debt management policies developed to reestablish the City as a creditworthy entry into capital markets. Under these policies, the City is committed to: maintaining debt service at less than 10 percent of General Fund expenditures; structuring repayments so that 25 percent of borrowing is repaid within five years, and 50 percent is repaid within ten years; and endeavoring to decrease and maintain debt per capita, and debt to assessed property value ratios to those in comparable cities.

Following suspension of the City's bond rating in 1981, the City ceased raising funds in the capital markets and deferred planned capital projects. Without new borrowings, principal and interest on long-term debt declined. This reduced expenditures for debt service in the short-term, but it jeopardized the condition and quality of the public infrastructure necessary to support future economic growth.

In FY84, the City returned to the capital markets to finance long deferred capital projects. Since then,

the City has entered the market nine times for general obligation borrowings, and twice for a refunding of general obligation bonds with high interest rates. The annual cost of servicing both this new debt and previously incurred debt has increased only marginally. As a percentage of recurring expenditures, debt service has remained low in comparison to the recent past: from FY84 - FY88 debt service ranged generally between 7 percent and 8 percent; from FY89 - FY93 it has ranged generally between 6 percent and 7 percent. (See Figure 2.) Assuming the City maintains the current five-year plan, and assuming no major surprises in the long-term outlook for overall expenditures, it appears likely the City will be able to maintain the lower range of 6 percent to 7 percent for debt service as a percentage of total recurring expenditures during the mid-1990's.

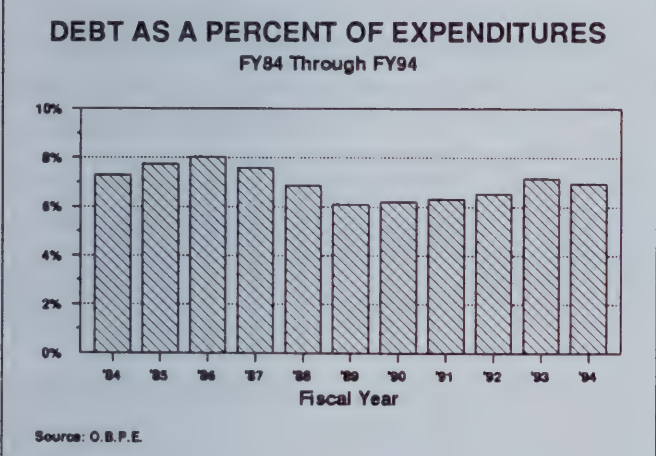


Figure 2

Two mainstays of the City's positive debt service position have been the relative stability of the total debt outstanding and the rapid retirement of debt. The City's total debt outstanding throughout the last decade has generally remained in the $500 million to $600 million range, and in any given year during that period at least 40 percent of principal outstanding has been scheduled to be retired in five years, and 70 percent in ten years.

Other factors have contributed to this favorable debt position in the recent past. First, the City has slowed down the rate of capital expenditures in response to reductions in local aid, without making the fundamental error of abandoning capital spending altogether and thereby allowing the infrastructure to deteriorate. Second, in spite of the state of the economy and two straight budgets with reduced revenue, the City has maintained its improved bond rating and thus maintained the City's image in the capital markets. Third, the City has managed its cash flow such that short-term borrowings were not needed in each of the last five fiscal years. This has been possible in the last few years mainly because of the switchover to quarterly billing for property tax and quarterly distribution of local aid.

## FINANCIAL/MANAGEMENT INITIATIVES

The City has undertaken a number of major policy initiatives to improve its internal management system. Major elements of this system include:

*Integrated Financial System:* Financial management has been enhanced through the Auditing Department's acquisition of the Local Government Financial System (LGFS) in FY86. This computerized financial management and accounting system tracks standard accounting functions such as revenues, expenditures, accounts payable, accounts receivable and general ledger. In addition, LGFS performs the specialized functions of encumbrance control, fund accounting, and grants management, as well as other accounting and budgeting functions. The utilization of this system has improved the financial monitoring and reporting of funds management. On-line access to financial information allows department managers to directly evaluate the financial performance of their department as a whole, as well as specific programs within their department.

*Program-Based Budgeting:* The FY88 Budget adopted program-based budgeting, requiring each department budget request to be accompanied by performance objectives and related promised performance measures. The program-based budgeting format facilitates OBPE efforts to hold departments accountable for their performance and assist them in effecting management or systems changes that will improve the delivery of City ser-

vices. During each fiscal year OBPE prepares a midyear report to document departmental progress and, at the conclusion of the year, it publishes a final annual report summarizing the performance of the departments.

*Property Tax Collections:* The collection of property taxes has been improved by enhanced tracking systems and more thorough collection procedures and notifications, resulting in increased collections. The City has implemented an aggressive enforcement program that continues to reduce the number of tax accounts that are delinquent, and to discourage new delinquencies. This program includes the adoption of stricter guidelines for handling delinquent taxes, utilizing a variety of collection remedies authorized by state statute, and working closely with the Commonwealth to refine the tax collection system. For example, the City, following requisite approval from the Massachusetts Department of Revenue, was the first municipality in the Commonwealth to amend tax bills to include past due amounts.

This change, coupled with letter writing campaigns to first-time delinquents, has resulted in a significant reduction in the number of past due accounts. The level of collections has risen from 92 percent in 1984 to 98.6 percent.

*Managed Downsizing:* In light of local aid reductions since FY89, the City has been forced to make significant reductions in City spending. As a result of this downsizing, the number of total City personnel has dropped 14.3 percent since January, 1989. The City work force is currently smaller by 1,269 FTEs than in January, 1984.

The City has made a great effort to accomplish these reductions with as few layoffs as possible. With the exception of personnel reductions as a result of the closing of Long Island Hospital and planned downsizing at Boston City Hospital, most reductions have been accomplished through attrition. In the spring of 1991, the City offered a voluntary termination program to all employees. In addition, the Department of Health and Hospitals, the School Department, and the Inspectional Services Department have offered department-specific retirement incentive programs.

Additional steps taken to manage expenditures in the face of declining revenues include new restrictions on out-of-state travel, the assignment and use of City vehicles, and equipment purchases.

*Health Insurance Cost Controls:* In January, 1991 Mayor Flynn announced a major new initiative to control the rapidly rising cost of employee health insurance. In consultation with City employee representatives, the City has conducted an audit of Blue Cross claims that will recover over $3 million, reduced stop loss insurance costs, and enrolled eligible retirees in Medicare to reduce City costs by an estimated $1.4 million annually. In addition, the City has positioned itself to much more effectively negotiate rates in the future.

*Risk Management Initiative:* In the spring of 1992, the City established a formal risk management program. Based in OBPE, the program coordinates efforts of key staff departments (Personnel, Workers Compensation, Labor Relations, Health Benefits, Law, and Retirement) in working with line departments to reduce a variety of risk-related costs. In addition to data collection, new reporting systems, and aggressive education efforts, accomplishments to date include increased collections from third party insurers for damage to City property, more active health and safety committees, and revised medical billing systems to take advantage of available discounts.

## FINANCIAL CONTROLS

In addition to the management systems described above, the City operates under several statutory financial control systems. Certain controls established in the 1982 Funding Loan Act and its 1986 amendments set limits on flexibility in financial administration. Under the 1982 Funding Loan Act, for example, until April 15 of each year, the Mayor is authorized to reallocate no more than $3 million between departments.

Additionally, the Funding Loan Act limits the amount of personnel expenditures that a department can make in any single quarter to a specific

percentage of its appropriation, and requires mayoral waiver to approve any overexpenditures.

The 1986 amendments also mandated that the City establish a reserve fund which, by FY90, had to be not less than 2 1/2 percent of the preceding year's appropriations for City and County departments except the School Department, which has its own separate reserve requirement. The fund may be applied to extraordinary and unforeseen expenditures after June 1 in any fiscal year, with the approval of the Mayor and the City Council. As of June 30, 1990 the amount in the City's reserve fund was $17.625 million, an amount which slightly exceeded 2 1/2 percent of the preceding year's appropriation for City and County departments.

## AUDITING AND BUDGETING PRACTICES

The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP). However, accounting practices established by the Commonwealth's Department of Revenue are used in the annual budget and property tax certification process. The statutory accounting system departs from GAAP in a number of respects. More technical discussions of these differences can be found in the City's official statements relating to bond sales, and in notes to its audited financial statements.

## FUND ACCOUNTS

The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. There are currently no transfers between funds. The funds and account groups are organized into four types described below.

*Government Funds* are those through which most governmental functions are financed.

- The *General Fund* is the City's most widely used fund. All financial resources, except those required to be accounted for in other funds, are in the General Fund; the detail of the fund comprises Volumes II-IV of this budget submission.
- *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than those detailed below) that are legally restricted to expenditures for specified purposes. Special Revenue Funds are described in Volume V of this budget submission.
- *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, principal and interest on City debt.
- *Capital Project Funds* account for financial resources used to acquire, construct, or perform large scale renovations to City-owned facilities. These funds are derived principally from general obligation bonds and from federal and state grants.

*Proprietary Funds* include Enterprise Funds and Internal Service Funds. The measurement focus is upon determination of net income, financial position, and changes in financial position. Accounting principles used for these Fund Types are those applicable to similar businesses in the private sector and thus, these funds are maintained on an accrual basis of accounting.

The City does not maintain Internal Service Funds.

*Fiduciary Funds* are used to account for assets held in a trustee capacity (Trust Funds) or as an agent (Agency Funds) for individuals, private organizations, other governmental units, and/or other funds. Trust funds include Expendable Trust Funds, Non-expendable Trust Funds and Pension Trust Funds.

*Account Groups*: The General Long-Term Obligations Account Group is used to establish control and accountability for general long-term obligations not financed by and accounted for in Enterprise Funds. Examples are abatement refunds, accrued employee sick and vacation leave, and judgments and claims.

The City expects to establish a General Fixed Assets Account Group beginning in FY94.

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# REVENUE ESTIMATES AND ANALYSIS

## OVERVIEW

Prior to 1989 the City had achieved a measure of fiscal stability attributable to a number of positive factors described at length in previous budgets. In 1989, growth in the national and regional economies became sluggish, the regional real estate market's dramatic growth of the last several years was reversed, and the state budget showed further evidence of structural imbalance. These developments resulted in two years of deep statewide local aid cuts that ended several years of revenue growth for municipal budgets during the post-Proposition 2 1/2 era and ushered in an extended era of budgetary difficulties and challenges at the local level.

The City's revenues were severely impacted during the slowdown in economic growth in 1989 and the subsequent recession which began in mid-1990. FY91 was the fourth straight year in which the growth in revenues declined. FY92 was the first year since FY82 in which the City experienced a decline in revenue. (It was in FY82 that Proposition 2 1/2 first reduced dramatically the City's property tax levy.) FY93 is nearly certain to represent the first time since the Depression that the City will have recorded a decrease in revenues two

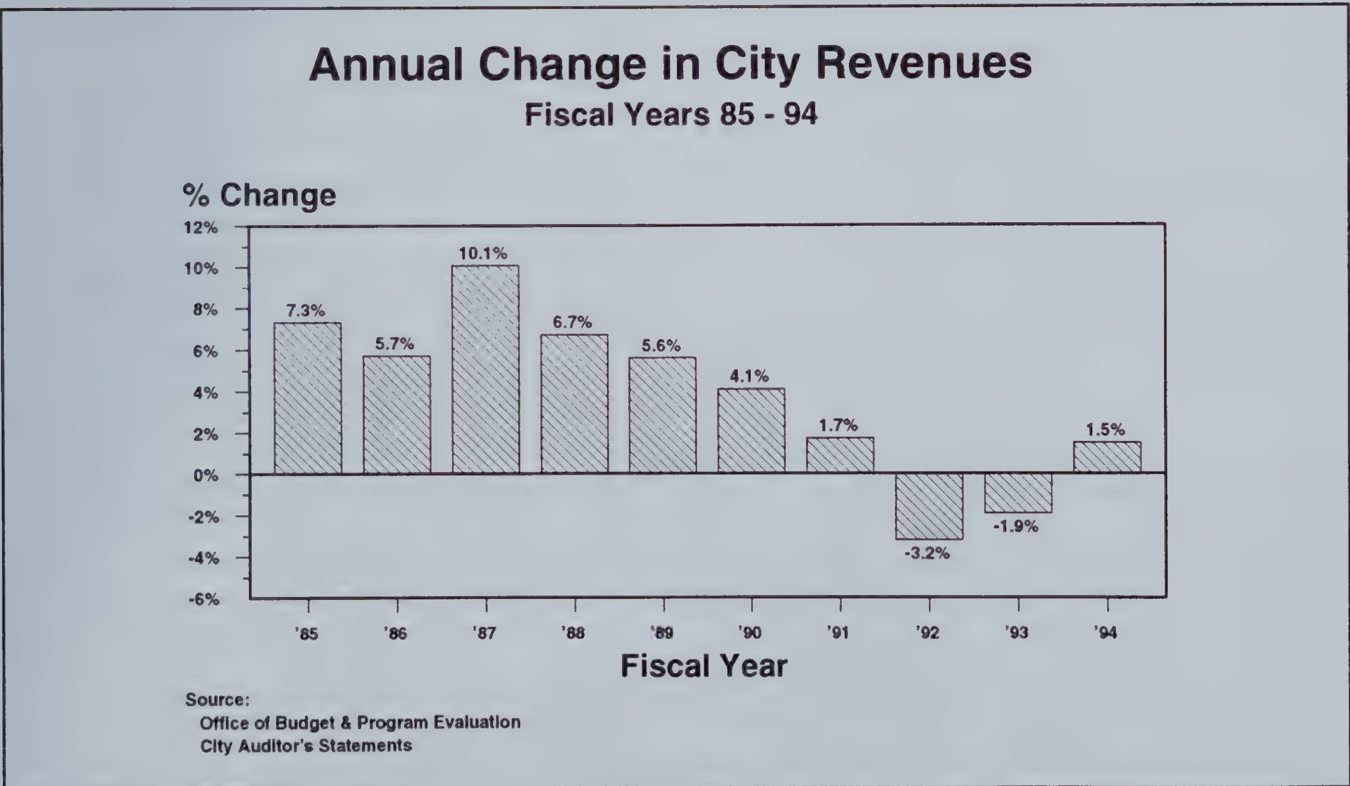


FIGURE 1

years in a row. For FY94, the City expects a slight increase in revenues. **(Figure 1.)**

The City has maintained balanced budgets and a high credit rating throughout this period of fiscal challenge, avoiding real fiscal crisis and succeeding in maintaining most of the services restored since initial Proposition 2 1/2 cuts nearly a decade ago. Nevertheless, consecutive years of decline in several major revenue sources have taken their toll on the full range of City services, such that there has been a noticeable decrease in public safety personnel. Furthermore, the City has needed to utilize remaining reserve funds in order to mitigate service reductions. Under these circumstances, the minimal growth expected for FY94 revenues will do little more than cover a small portion of inflationary cost increases.

## THE ECONOMIC OUTLOOK

This Chapter begins with a review of the national and state economy and trends which will impact on the Boston economy in FY94 and beyond. This is followed by an analysis of recent state budget trends and related implications for cities and towns. A detailed discussion of each of the major revenue categories shown in the Summary Budget begins on page 10. The City's financial situation is less dependent on general economic conditions than is the state's. The Commonwealth's tax revenues clearly are economy-driven, however, and because the City depends in part on the state distribution of local aid to cities and towns, current national and regional economic trends have a substantial impact on the City's fiscal health. In addition, trends in the national financial markets impact the local real estate market, which in turn has a substantial impact on the City's largest source of revenue, the property tax. These trends, which remain largely beyond the City's direct control, partially define the economic, demographic, and financial environment in which the City operates.

A key to Boston's fiscal survival is the emergence of the Commonwealth from financial crisis. After several consecutive years of decline in its fund balance and two major operating deficits, the Commonwealth's budget planners have succeeded in improving its financial position during both FY91 and FY92. Throughout FY92 and FY93, actual state tax revenues have consistently exceeded projections, and projections were revised upward around the middle of both years. Moderate economic recovery during FY94 is likely to have a positive impact on the state tax revenues. This situation contrasts radically with the background against which the FY91 and FY92 state budgets were debated and against which large reductions in state aid to municipalities were made.

The City has experienced, along with all of New England, the worst side of the national recession. (In fact, the City lost a greater percentage of its jobs during the recession than did New England, Massachusetts, or the Boston Metropolitan area.) Now, some form of mild recovery has taken hold. The City is not in a position, however, to build an economic recovery into its overall budget plan because the two areas where such positive development could most deeply impact the City's budget are those of property tax and local aid. To date, the governor and the legislature appear to have opted to direct the benefits of the recovery to local education while freezing available state aid for all other local services at the recently reduced levels. In the case of property tax, there has been a slight uptick recently in some downtown commercial rents. In order to renew the confidence of developers and investors, however, such a trend will have to become more broad-based and be sustained over time. Even if the trend takes hold, the earliest one might see a vigorous year of commercial development is 1995, and that growth would not impact the City budget until FY97.

The 1990-1991 U.S. economic recession has ended. It was not, in itself, a severe recession. However, it was preceded by five quarters and followed by three quarters of substandard growth. Now that a more traditional post-recessionary growth spurt appears to be occurring, and a new president is vigorously addressing rather than shunning some of the structural difficulties in the U.S. economy such as the federal deficit and the runaway costs of health-care, there is some hope on the horizon in a decade which certainly brings no

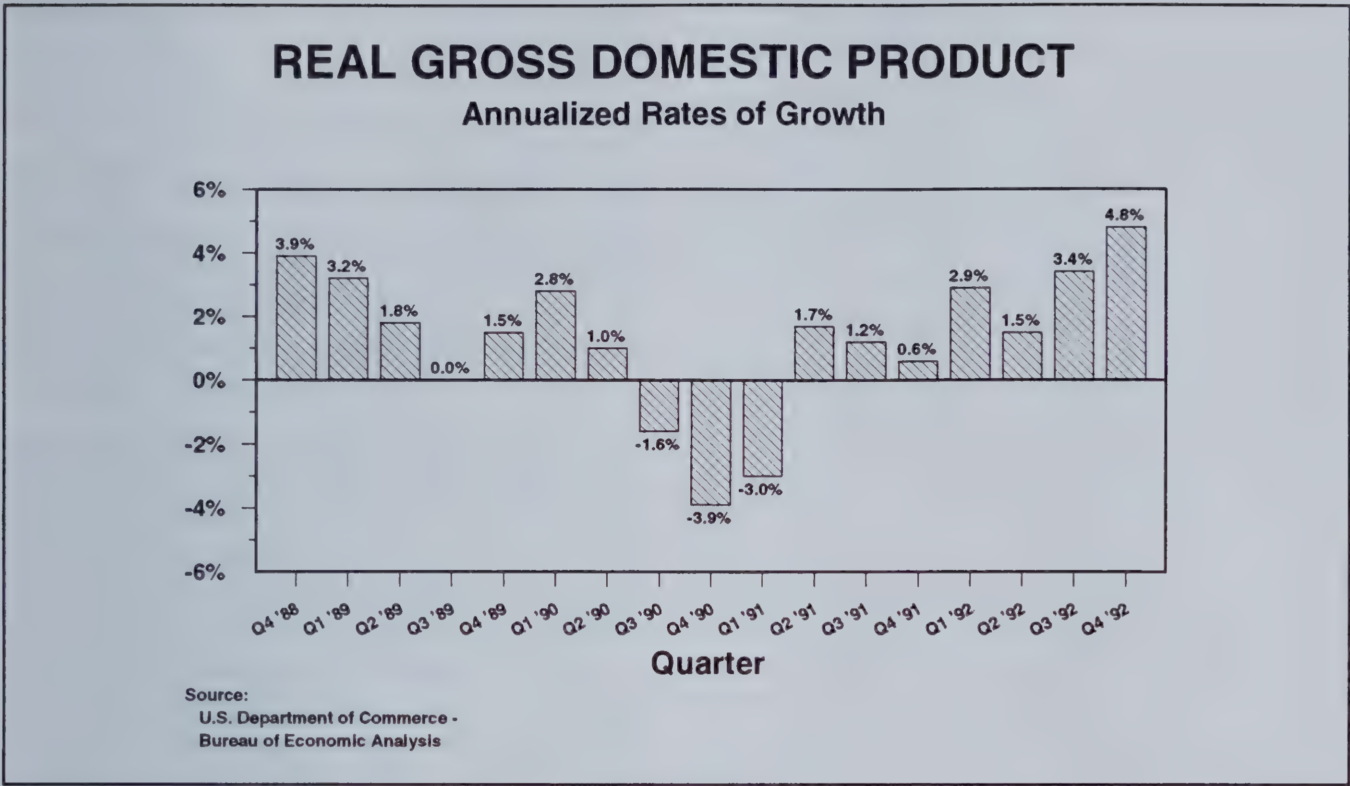


FIGURE 2

shortage of challenges, some of which are described in detail in the next section.

## The National Outlook

The recovery from the 1990-1991 recession, as measured by the Gross Domestic Product (GDP), began in the second quarter of 1991 when the U.S. economy experienced a mild 1.7% annualized rate of growth, following decreases in the prior three quarters of -1.6%, -3.9%, and -3.0%. Initially the growth rate during the recovery was similar to that in the five quarters of substandard economic growth that preceded the recession. Annualized rates of GDP growth in the second, third, and fourth quarters of 1991 were only 1.7%, 1.2%, and 0.6%. Indeed, there was much talk about the possibility of a "double dip recession." This proved not to be the case. **(Figure 2.)**

The recovery began in earnest in 1992 as the GDP grew for the year by an estimated 3.2%, with the fourth quarter annual growth rate of 4.8% the strongest in five years. The recovery has been fueled in part by lower interest rates. For example, fixed-rate first mortgages have fallen from their already low rate of 8.31% in November 1992 to 7.68% in February 1993. [1] This is driving up existing home sales which, based upon initial 1993 trends, could achieve their highest annual level since 1979. Single family home starts are also up and, according to a National Association of Homebuilders estimate, are expected to be 30% higher in 1993 than in their 1991 lowpoint. [2] Should these estimates prove correct, the multiplier effect of new home buyers becoming major consumers in the course of outfitting their homes would certainly push the recovery along. It is also estimated that, over the past two years, about a trillion dollars in mortgages have been refinanced. [3] According to one estimate, the decline in interest rates in 1992 saved homeowners $22 billion in reduced monthly mortgage payments. The resulting savings has slowly but steadily worked its way into the economic mainstream, helping to spur economic growth in the latter half of 1992 and the first few months of 1993.

Another factor in this recovery has been productivity improvements. The 2.8% increase in 1992 in nonfarm business productivity is the highest increase since 1972 and is of particular interest, since this is an area in which the U.S. has not been strong for decades. [4] It remains to be seen whether this is the beginning of a renewal in significant productivity growth or a one-year aberration reflecting, more than anything, the outcome both of recessionary layoffs of less experienced workers and of large companies eliminating unprofitable operations.

Recently, debate over national economic policy has frequently focused upon the federal deficit. It is assumed by most interested observers that the federal government's massive borrowing increases interest costs on the reduced capital available for other borrowers and thus acts as a drag on the economy. The federal deficit emerged as a central 1992 theme in the presidential election, as the incumbent had the misfortune of having both raised taxes and increased the already huge federal deficit. President Clinton, in an attempt to address the issue, has proposed a package of tax increases and spending reductions that require "shared sacrifice." However, even if the administration's package pass as proposed and its economic assumptions prove correct, the Federal Government would still incur another $1.2 trillion in debt during the period covering FY93 through FY97 in order to meet its current expenses. [5] **(Figure 3.)**

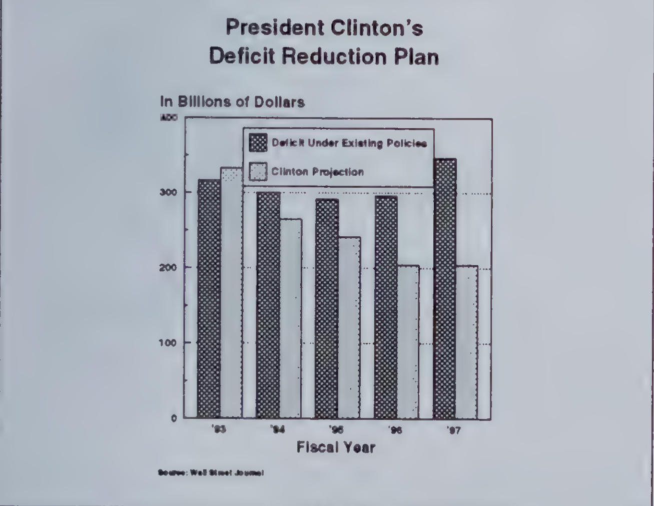


FIGURE 3

A crosscurrent to the major theme of direct deficit reduction in President Clinton's budget plan is a short-term and a long-term plan for increased federal spending in selected areas as a form of investment in the nation's economy. In the short-term the President proposes a "stimulus package" that attempts to ensure that, by creating several hundred thousand new jobs and putting money into people's pockets, the recovery that appears fairly healthy at this point does not suffer any reversals in the near-term. This spending package totals about $16.3 billion and includes the following as its largest items: a) a $4 billion extension of unemployment benefits through January, 1994; b) a $3 billion increase in spending on highways (with an emphasis on "ready to go" projects); c) a $2.5 billion increase for block grants to state and local governments; d) $1 billion for summer youth jobs; and e) a $500 million increase in spending for Head Start. Over five years the President proposes spending an additional $144 billion as a long-term investment in the nation's economy, with an emphasis in areas such as education and job training, infrastructure, and business tax credits for equipment purchases.

Of special immediate interest to local governments is the new course being charted by the President in intergovernmental fiscal relations. For years, local governments have been witnessing decreased federal local aid. Now, local governments are suddenly focal points for the President's short-term stimulus package. Both the administration and Congress have encouraged local governments to demonstrate that they have a significant number of "ready-to-go" projects, that is, projects in which ground would be broken within six months of receipt of the funding. Boston compiled a list of 35 such projects back in December, costing $92.7 million in 1993 and $622 million through 1997. Human and Urban Development Secretary Cisneros, himself the former Mayor of San Antonio, is focused on maximizing the job creation resulting from the stimulus package spending. All of this is, perhaps, the best news local governments have

received from the Federal government since President Nixon created the general revenue-sharing program in the 1970s.[6]

## The State Outlook

Massachusetts and all of New England experienced impressive growth through most of the 1980's, with employment and income gains surpassing those of other regions. A regional economic slowdown began in 1989; beginning in 1990 the region experienced the national recession more deeply than did other parts of the country. The more severe impact from the recession in New England is due both to its very rapid expansion in the 1980's and to the industry mix which made that expansion possible. For example, continued employment gains throughout the 1980s lowered the unemployment rate, causing labor shortages in some areas and subsequent high wage increases that could not continue indefinitely. Thus, over the period 1982 through 1988, total wage and salary gains averaged 9.5% per year in Massachusetts and

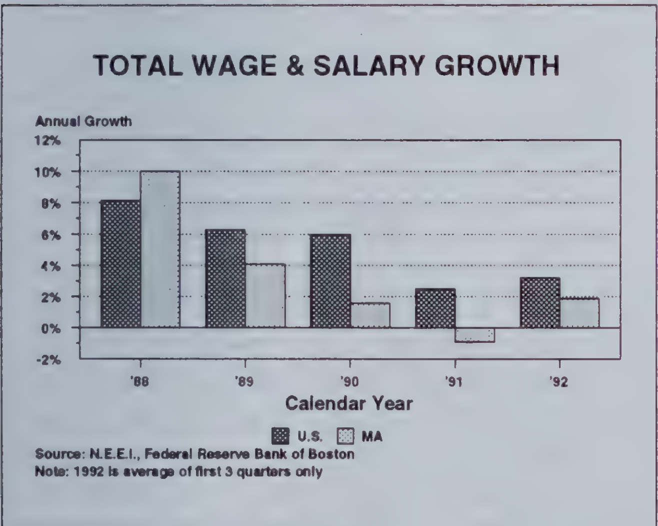


FIGURE 4

7.1% in the U.S. The relative positions reversed in the period 1989 through 1992, as Massachusetts averaged annual gains of 1.7% and the U.S. averaged 4.5%.[7] **(Figure 4.)**

Illustrating the fact that New England and Massachusetts suffered more in the current recession, from 1990 through 1992 the average annual non-agricultural employment level in the U.S. actually increased by 26,000 jobs; in New England it decreased by 622,000 jobs; in Massachusetts it decreased by 338,000 jobs. Massachusetts employment as a share of the U.S. total went down during this period from 2.9% to 2.6%.[8]

Massachusetts population has actually suffered a decline during this recession. While the U.S. population growth has exceeded 1% per year in 1990-1992, Massachusetts population declined by approximately 24,000 in 1991, and a negative net out-migration estimated at 36,000 held Massachusetts population growth at only an estimated 2,000 in 1992.[9]

Improvement has appeared on the horizon for Massachusetts employment. Following a total loss in 1990 and 1991 of 295,000 jobs, employment decreased by just 43,000 in 1992. Thus far in 1993, moreover, there has been a definite uptick in Massachusetts employment, and in March, 1993, for the first time in 36 months, the state registered a lower unemployment rate than did the U.S. That rate went down to 6.4%, the lowest rate for the state since September, 1990. Observers of the Massachusetts economy will be watching to see if this crossover in comparative unemployment rates sticks as a near-term trend. The comparative unemployment rates were often cited as evidence of the state's relative prosperity in the 1980s, when the state enjoyed a lower unemployment rate than did the U.S. for the entire decade.

In the 1980s, the defense industry contributed to the state's rapid expansion. Massachusetts had reaped the benefits of an expanding Defense Department budget, averaging annually $1,405 per capita during FY87-89 in prime contract awards (nearly a quarter relating to research), as compared to the U.S. average of $514. An estimated 6% of goods and services in Massachusetts for 1989 was attributable to the defense sector. But now this makes the state more vulnerable to defense budget reductions that are accelerating under the Clinton administration as a central piece of his deficit reduction plan. Already, according to one estimate, the state will have lost approximately 17,000 civilian defense-related jobs between 1990

and 1993.[10] Accelerated reductions in defense over the next five years will diminish further the number of defense related jobs. Meanwhile, there are some ongoing post cold war conversion efforts in major companies that have depended on defense contracts, and the Federal Bureau of Prisons is planning to build a 2,100 bed minimum security prison on the site of Fort Devens, where most operations are closing in 1995. The prison will employ more than 1,000 people when completed.[11]

By 1989, a combination of the local building boom and a slowdown in other parts of the local economy resulted in an oversupply of both office and residential space. In 1991 housing permits authorized for single residential units hit their lowest point in nine years in Massachusetts. However, this appears to be the recessionary trough for such housing construction, as there was an increase in 1992 of approximately 35%, and early indications in 1993 are that the positive trend will continue. Similarly, the value of nonresidential building construction contracts, after dramatic dips in both 1990 and 1991 in Massachusetts, increased by approximately 36% in 1992. The level is still well below the 1987-1989 peak and is more reflective of constructive activity of tax-exempt institutions and public works projects than of a resurgence in commercial construction.[12]

One recent significant step forward for local development was the recent agreement for building a new Boston Garden. After decades of proposals falling by the wayside, the special legislation representing the negotiated agreement of terms among financers, owners, and overseers of the public interest, was signed into law early in 1993. A flood of public discussion about a much more ambitious project, the building of a sports and convention "megaplex" has followed. Previous discussion of such a project, which almost certainly would give a sigificant boost to the local economy, was generally vitiated by the decades of failure to rebuild or even to renovate the dilapidated Boston Garden.

According to the Bureau of the Census 1987 Census of Manufacturers, 190,400 of Massachusetts manufacturing jobs (representing 6.4% of its civilian labor force) were dependent on exports. Massachusetts most important exports are industrial machinery, computer equipment, and other electronic equipment. In 1990 the state's manufacturing exports increased by 10% for a total dollar value of $11.6 billion.[13] And, in a related development this past March, the port of Boston reestablished direct shipping service to Europe for the first time in over twenty years, thus giving a boost to local exporters who will be able to shave six or seven days off the current transit time.

Generally, freight shipped through Boston now travels down the East coast and stops at larger ports before making the Atlantic crossing, or companies opt to truck their goods to the larger ports directly. Either way, this increases the cost for local exporters. The amount of goods to be directly shipped from Boston to Europe will initially be small. But such exporting is likely to increase as the new intermodal facility at Fort Devens outside Route 128 will enable freight from double and triple-stacked freight cars to be efficiently transferred to smaller cars which fit under the fourteen low bridges which block direct access to and from Boston Harbor for rail shipping. Since Boston Harbor receives much more in goods than it sends out, the improved access between ocean and rail holds even greater potential for boosting imports coming through Boston.[14]

## The State Budget [15]

The most important recent state budget development for local governments has been the level funding of local aid after 3 years of significant reductions. These reductions reversed a seven year state commitment to sharing state revenue growth with cities and towns. Over the last three years, the state has been relatively successful in balancing its own budget. This now gives the Commonwealth the capacity to support an adequate and diversified local revenue base and eliminate the current overreliance by municipalities on the property tax.

Statutory deficits reached a shockingly high level in FY89 and FY90 with deficiencies of revenues versus expenditures of $672.5 million and $1.252

billion, representing 5.2% and 9.3% of total expenditures. (The latter is the equivalent to Boston incurring a $120 million deficit in its operating budget).

In brief, it appears that state government was relatively quick to react to the good news of the surprising upswing in revenues from FY83-FY86, when total state taxes increased by over 13% in three of the four years. The average annual rate of growth in tax revenue for those years was only 2% above the rate for spending growth as large midyear supplementary spending authorizations were annually enacted. Thus, in spite of rapid increases in total state taxes during FY83-FY86, the buildup in reserves was relatively small and fully utilized in the medium sized deficits in FY87 and FY88 that preceded the monster deficits of FY89 and FY90. When revenues took a turn for the worse, in FY87 and FY88, state officials were incredulous and slow to act, in contrast to their swift reaction to the good news earlier in the decade. The gap by which spending increases exceeded tax revenue growth averaged almost 5% annually. **(Figure 5.)** The attack on the resulting structural budget gap over the last four and one-half years has been pressed on many fronts, and what follows is a short description of the major changes that led to return of relative fiscal integrity in the state budget.

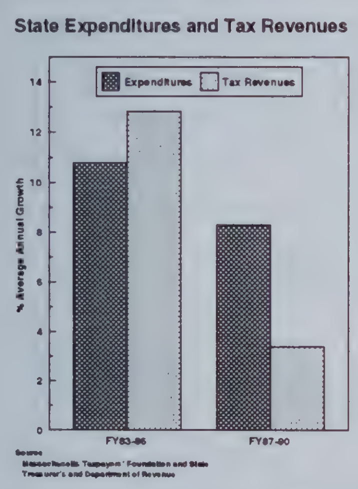


FIGURE 5

16

**Revenues:** When the Commonwealth could no longer plug deficits with reserves accumulated in prior years, when the deficits could no longer be managed with modest proposals, and when there was no longer any hope of a sudden recovery and renewal of strong revenue growth, the state's leaders, after more than a few twists and turns, took the plunge and enacted a major income tax increase. The first increase was enacted in July, 1989 and financed the FY89 deficit and Medicaid-related borrowings by effectively raising the income tax rate from 5.0% to 5.375% for tax year 1989, and to 5.75% for tax year 1990. It is estimated that the related increases in income tax receipts in FY90 and FY91 were $444.5 million and $293.9 million. The second increase was enacted in 1990 and increased rates for both earned and unearned income. The rate for earned income increased in 1990 to 5.95%, in 1991 to 6.25%, and for 1992 and subsequent years it went back down to 5.95%. The rate for unearned income increased from 10% to 12% for 1990 and subsequent years. The resulting increases in revenue for FY91 and FY92 are estimated at $700 million and $841 million. Also in accordance with 1990 legislation, up to 15% of state income tax revenue is pledged to the payment of the $1.4 billion borrowed to finance the FY90 deficit that has been financed through FY98.

Several other changes in the Commonwealth's tax code have been enacted the last few years. The sales tax was extended to certain utility costs including telecommunications, netting an estimated $113 million in FY91, $180 million in FY92, and similar amounts thereafter. In 1990 the motor fuel excise tax was increased from 11 cents per gallon to 17 cents effective July 28, 1990, and further increased to 21 cents effective January 1, 1991. These rate increases are estimated to have brought in an additional $175.4 million in FY91 and $254.8 million for FY92, and similar amounts thereafter. A new excise of 1.25 cents per cigarette was enacted by petition in November 1992 and imposed beginning January 1, 1993. The total amounts expected from the new excise are estimated at $70.1 million in FY93 and $119 million in FY94.

There have also been several tax reductions enacted recently, partially offsetting the income and other tax increases described above. A major phased-in reduction in the the estate tax was approved in 1992. The estimated impact on state taxes according to the Legislature's Joint Committee on Taxation (JCT) for FY93 through FY97 is $24.8 million, $47.5 million, $71.1 million, $138.5 million, and $252.7 million. A tax credit for corporate research and development was enacted in 1991. The reduction in tax revenue estimated by JCT for FY92 and FY93 are $8.5 million and $51 million, and for FY94 forward, $34 million. The extension of the sales tax to businesses and services was repealed in 1991 (excepting certain utilities). It was generally estimated that the state has forgone approximately $175 million annually by repealing the sales tax extension to services.

Ideally, economists (at least those from the Keynesian school) recommend increasing taxes during periods of fast growth and decreasing taxes during a recession, as a means, in each case, of smoothing the economic cycle. The Massachusetts state government did the opposite. Responding first to the direct political pressure of an upcoming and seemingly popular referendum in 1986, it decreased the income tax rate amid a fast-paced economy. And three years later, out of sheer necessity, it increased the income tax rate at a time when the regional economy was clearly experiencing a slowdown. It is, however, hard to imagine the drastic solutions that would have become necessary had the state not taken in, during the FY90-FY92 period, the additional $2.3 billion in income tax revenue resulting from the two rate increases enacted. Voters articulated a preference for paying taxes at the current level over further drastic budget reductions when they rejected an ill-timed petition to reduce the income tax rate in 1990.

A significant footnote to the state's dramatic improvement towards balancing the budget — an improvement from a deficiency of $1.252 billion in FY90 to a deficiency of just $21.2 million in FY91 — was the state's receiving, for the first time, federal reimbursement for uncompensated care payments to hospitals. This middle-of-the-year discovery that the state could be reimbursed for the uncompensated care pool netted the state $513 mil-

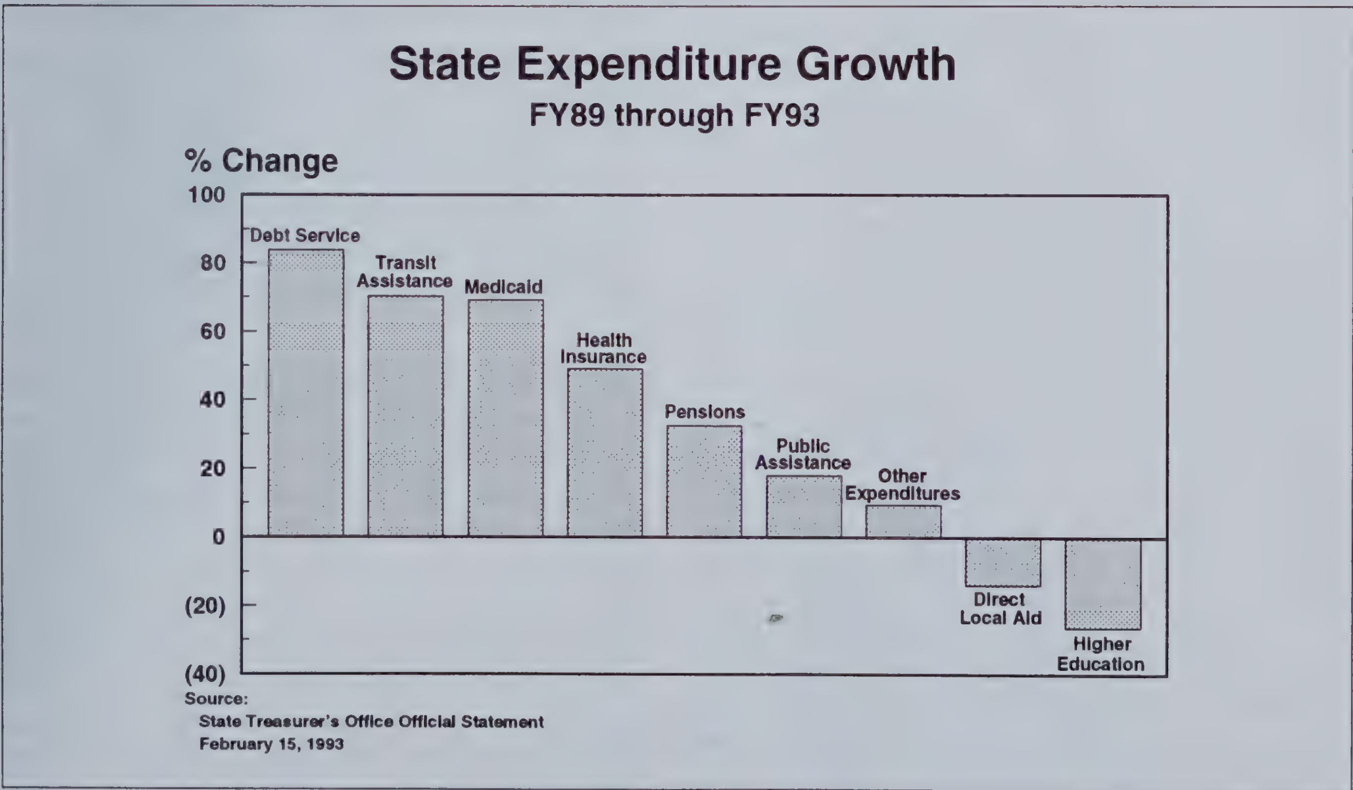


FIGURE 6

lion in FY91 and $163.6 in FY92, and the FY93 reimbursement is estimated at $212.7 million. The state was able to apply for such a reimbursement because of recent amendments to federal law contained in the Omnibus Budget Reconciliation Act of 1990.

The Commonwealth's ability to meet its obligations at the end of a fiscal year has been a telltale indicator for both its fiscal difficulty and fiscal recovery. In FY89 the state treasurer had to defer temporarily $305 million in local aid due at the end of year. In FY90 the amount of local aid deferred temporarily at the end of the year grew to $1.26 billion. At the end of FY91, the state, after meeting all its obligations at the end of the year, had a cash balance of $182.3 million. At the end of FY92, the state, after meeting all its obligations at the end of the year, had a cash balance of $731 million.

**Expenditures:** Since FY89 (up through FY93) total state expenditures have increased by a cumulative $2.4 billion or 18.5%, a relatively small increase as compared with increases in the mid-eighties, when it was not unusual for expenditures to increase over 10% annually. The cost of Medicaid, debt service, and regional transportation has continued to climb, but the state has made a major effort at controlling these costs on a long-term basis. By means of funding reductions, the state has been relatively successful in pressuring higher education, regional transportation, and municipalities — all entities with revenue sources of their own — into increasing their own revenues. **(Figure 6.)**

Since FY89 the state's annual cost for debt service has increased by 83.9% or $545 million. Part of this increase was due to the precipitous rise in capital spending by the Commonwealth, increasing between FY87 and FY89 from $600 million to $971 million. In response, such spending was capped administratively at $925 million per fiscal year. Subsequently, capital spending decreased in FY90, FY91, and FY92 to $936 million, $847 million, and $694.1 million. Inasmuch as each year's debt service represents obligations for borrowings of the past two or more decades and is only slightly impacted by the current year's borrowing, it will take several more years of such reduced capital-spending levels to impact fundamentally the debt service level. In the near-term, what has profoundly impacted the cost of debt service is the financing of the 1990 $1.252 billion deficit. Of the $545 million increase between FY89 and FY93, $279.2 million is a result of financing the FY90 deficit. The remaining debt service payments related to the FY90 deficit are estimated (a portion of the interest is at a variable rate) at $279.2 million per year for FY94-FY97, and $130 million for FY98.

Since FY89 the state's annual cost for Medicaid has increased by 69.1% or $1.267 billion. Since Medicaid is 50% reimbursable by the Federal government and the state's Medicaid reimbursements have increased correspondingly, a better estimate of the impact of Medicaid expenditure increases on the state budget is arrived at by reducing the spending increase by half, down to $633 million. This may well be the most difficult item to control in the budget. What makes Massachusetts Medicaid program expensive relative to those in other states is that the portion of its elderly who live in nursing homes is significantly above the national average. That population in Massachusetts is, moreover, particularly dependent on Medicaid, which covers 65% of nursing home costs in the state as compared to the 43% national average. A host of ongoing initiatives addresses this and other Medicaid issues and is assumed in the FY93 to produce savings of $100 million. These initiatives include a comprehensive managed-care approach to Medicaid administration, the repricing and buy-in of Medicare services for Medicaid patients, and restrictions on nursing home eligibilty. It has been the historical pattern for Medicaid spending to exceed the initially approved Medicaid budget estimates due to initiatives not achieving the hoped-for savings, or simply due to hopeful spending estimates. The Medicaid budget generally receives supplemental appropriations in the last months of the year to cover the shortfall.

Since FY89 the state's annual cost for direct local aid including education grants has decreased by 13.8% or $410 million, a reduction which has played a key role in the state's return to a balanced

budget. A common theme in the Commonwealth's budget publications in the late 1980's was that municipalities had not fully utilized their capacity to raise property taxes under Proposition 2 1/2. The local aid reductions in FY90, FY91, and FY92 pressured cities and towns to maximize local revenue. Thus, as reductions in local aid became part of the state's budget solution, the excess levy capacity (resulting from cities and towns in prior years not raising the maximum levy allowable under Proposition 2 1/2) was utilized and, consequently, shrunk to less than half of 1%, down from a peak in FY87 of slightly under 3%.[17]. And, not unlike the state, cities and towns have increasingly utilized their reserves to fill in budget gaps. Between the end of FY88 and FY92 free cash reserves dwindled by 56% from $386.9 million in FY88 to $168.9 million in FY92; during the same period negative free cash balances went from $3 million to $74.8 million.[18] Local receipts (such as excise receipts, fees, fines, and charges for hospital services or trash pickup, etc.) increased between FY89 and FY92 by 31.3%, partly as a result of fee and fine increases or the reconstitution of tax-based services as fee-based services.[19]

State aid cuts also reduced many municipal workforces and services and in some instances created havoc, especially for cities already experiencing fiscal crises prior to the reductions. The state addressed these cases, partly through parcelling out some emergency state aid and partly through advising or direct involvement in local fiscal decision making. However successful this band-aid approach of emergency aid for the worst cases may be, on a statewide basis, the data clearly demonstrate that cities and towns have more or less used up their reserves, excess levy capacity, and capacity to increase local revenues. Thus, in FY93, state officials, driven by practical considerations and availability of resources, reinstituted increases in state aid in the form of grants earmarked for education.

Since FY89 the state's annual cost for higher education has decreased by 26.4% or $196 million. This, however, does not reflect a major accounting change for the FY93 budget, which authorizes the University of Massachusetts to retain and expend tuition revenues estimated at $77.5 million. Major increases in tuition and fees have been put in place during FY89-FY92, including a 6% tuition increase for most campuses in FY92. Thus, as in the case of local aid, state funding reductions have forced state public higher education institutions to maximize their own resources.

The state's annual cost for the Massachusetts Bay Transit Authority and other regional transit authorities has grown by 70.2% or $217 million since FY89. This growth has been mitigated by fare increases, instituted partly in response to limits on state funding for these authorities.

## STATE LOCAL AID

In the past, "local aid" has referred to state distributions to municipal general revenues from the state's Chapter 70 and additional assistance accounts (which had been jointly referred to as resolution aid) and from lottery distributions. The amount of these funds to be distributed each year to an individual community is described (along with other relatively smaller state programs such as equal education opportunity funding, school construction reimbursements and highway funds) on the "cherry sheet." The cherry sheet is sometimes issued on a preliminary basis when municipal budgets are debated in the spring and is revised or finalized subsequent to passage of the state budget.

**State Revenue Sharing:** Since FY82 there have been three distinct phases in state local aid funding policy. From FY82-FY89, local aid policy was essentially a revenue sharing response to Proposition 2 1/2. A reasonable annual increase in local aid became an essential component in the financial planning for Massachusetts municipalities. The enactment of Proposition 2 1/2 would have led to an ongoing deterioration of basic municipal services throughout the 1980s had its consequences not been offset by increases in local aid between FY82 and FY89. The Commonwealth recognized that state revenue sharing in the form of local aid was essential in maintaining critical local services.

FY93 16.6% of total state spending supports local aid.[22]

The reduction of local aid funding fundamentally altered the financial relationship between the state and its municipalities, ending an eight year period (FY82-FY89) in which a stable and dependable local aid funding policy allowed for planning and predictability in local budgets and services. Estimating state cherry sheet distributions has consequently become problematic. FY94 is the fifth straight year in which there is no actual approved local aid allocations available prior to the submission of the Mayor's budget to City Council.

The Commonwealth's retreat from local aid came at a point in time when the regional economy was weakest, and over time, the City's revenue base had become more sensitive to the economy. Thus, many local sources of revenue (new construction additions to the property tax levy, local option excise receipts, building permit receipts, and interest income, for example) were decreasing at the same time that local aid was being reduced.

The impact of local aid cuts on the City has been compounded because Boston faces extraordinary demands for services at the same time that so much of its land is exempt from property taxes. The population of the City doubles during the day as commuters and visitors enter the City. As a result, the City must provide police and fire protection and has to clean up after twice as many people as it would otherwise. In addition, few large municipalities nation-wide assume, as does Boston, such a wide array of fiscal responsibilities, including schools, hospitals, and county costs. Boston finances a far greater share of county corrections costs than does any other municipality in the state.

In developing alternatives to local aid, Boston has had few opportunities to broaden its municipal tax base. The only available local option taxes are the jet fuel and room occupancy excises. Although Boston has taken full advantage of these options since 1985, they add only a modest amount to total City revenues. Nationally, cities with a population of 300,000 or more generate, on average, only about 37% of tax revenues from property taxes because sales and income taxes allow for a more diversified tax base. But in FY93, 93% of Boston's local tax revenue will come from the property tax levy.

In the mid-1980s, state revenue sharing in the form of local aid was critical as an implicit source of diversification of tax revenues that support municipal services. The very heavy direct dependence on the property tax had been mitigated by access to growth in state income, sales, and corporate tax revenues. These local aid dollars had become basic funding for public services — police and fire protection, education, public works, and health care — that municipalities are expected to provide.

**Local Aid Recast as Educational Aid:** In the third and most recent phase, which began with passage of the FY93 state budget, the state embarked upon a multi-year commitment to increase grants to local education while freezing support for other local services at current levels. While the state's increase in education grants (holding other local aid level) is certainly preferable to the reductions of the FY89-FY92 period, it leaves municipalities in a quandary as to how to maintain other basic municipal services such as police, fire, and public works at a reasonable level. While this recasting of local aid policy as local educational aid policy has yet to be made permanent — currently the governor has proposed holding hostage both FY93 and FY94 educational aid increases until the legislature acts on an educational reform bill — it appears that some version of an education aid increase above the FY93 amount, in tandem with educational reform, will be the likely outcome. Future annual installments in upcoming years will of course be subject to appropriation by the legislature.

The FY93 state budget increased local educational aid by $187 million statewide as the initial installment in a multi-year commitment to increase and equalize funding for local education statewide, a commitment teamed with an effort to reform local education. The two other significant variances in local aid were a highway aid reduction of approximately $40 million and the legislature's increase of lottery aid by $23 million.

While the reform legislation has yet to be finalized, the new emphasis on local educational aid in FY93 has fundamentally altered the "general revenue sharing" approach of the 1980s. First, rather than allowing new local aid to be spent at the discretion of the municipality, the state in FY93 required the additional aid to be spent on education. And second, rather than determining the distribution amongst municipalities by a comprehensive needs-based formula, the distribution tended to reward municipalities for underfunding their school system over the longterm. Consequently, Boston, which has appropriated substantial funds for its school system over the years, received approximately $8 million in new educational aid in FY93, compared with new aid amounts in the FY82-FY89 period which often exceeded $20 million. And third, should the educational reform bill pass in its current form, it will require numerous mandates on educational spending whether or not the additional educational aid covers the cost of such mandates.

**Lottery Distributions.** In FY93 the City received its first increase in lottery distributions since FY89, an increase from $25.3 million to $27.2 million. This increase was the City's share of a $23 million statewide increase in lottery distributions, from $306 million to $329 million. For the previous three years, the local share of lottery receipts had been capped at $306 million with any excess going to support the state budget. Up through FY89, the lottery had been a source of annual revenue growth for most municipalities, and the capping of these distributions was one further reason why more municipalities received less state aid in FY90-FY92. The City's share of state lottery distributions has been less than 9% from FY86 onward, while it had been as high as 17.5% in 1980. The main factor that lowered Boston's share of lottery proceeds was the emphasis in the lottery distribution formula on equalized valuation per capita. Equalized valuation increased more dramatically for Boston than for most other municipalities in the mid-1980s, thereby driving down the City's lottery share.

Boston's cherry sheet includes an item unique to the City: the teachers' pension reimbursement for pension charges to the City. The pensions paid to retired teachers from all other cities and towns in Massachusetts come directly from the Commonwealth via the State-Teachers Retirement System. In a singular arrangement mandated by general law, pensions paid to retired Boston teachers are paid by the State-Boston Retirement System, which charges the City of Boston for this cost; the City is reimbursed on the cherry sheet by the Commonwealth. In short, the Boston teachers' pension payroll is administered locally, but as with all other teacher pensions in the state, is the financial responsibility of the Commonwealth.

After remaining in the $20 million to $23 million range from FY84 to FY90, the teacher reimbursement increased to $26 million in FY91, $26.4 million in FY92, and $27.2 million in FY93. This increase has been driven by an increase in teacher retirements. Because of the older demographic profile of the City's teachers, the City expects this growth to continue. The state's initial FY94 projection is $29.9 million. Over the last few years, the state's projection of this reimbursement has exceeded the actual by a fair margin.

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## PROPERTY TAX LEVY

The property tax levy has been the City's most dependable source of major revenue growth during the past nine years. In FY94 the net property tax levy will provide 47% of all City revenue. The increases have been steady and consistent from FY85

to FY93, ranging from $28 million to $41 million. However, because of the increasing property tax levy base, the $30 million in FY85 represented an 8.9% increase, while the $29 million increase estimated for FY94 represents a 4.6% growth rate. Thus, while the amount in FY85 increased in excess of inflation, the similar amount in FY94 simply keeps pace with inflation. **(Figure 8.)** Meanwhile, the other half of the City's revenue base is shrinking. As things stand, property tax is the City's only consistent long-term growth revenue, and its future growth — as explained in more detail below — is now in question.

In each year since FY85 the City increased its levy by the allowable 2.5%. These increases have grown as the levy has grown, beginning in FY85 at $8.3 million and reaching $15.6 million for FY94. During these same years, the levy has also been positively impacted by taxable new value, especially from new construction. This has added to the tax base. The combined effect of the allowable 2.5% increase and the taxable new value, on the recent past and near-term future, is an average annual levy increase from FY90 through FY93 of 6.6%, and a projected annual increase in FY94 and FY95 of 4.6%.

Proposition 2 1/2, as amended in 1991, allows growth in the levy beyond the 2.5% limit for any new properties and any increases in property valuations that are not related to municipal-wide revaluations. This limitation is more flexible than the original limitations on allowable new growth and has helped to offset the downward trend in the City's taxable new growth. Thus, with fewer construction cranes in sight during 1991 and 1992, the City will have added slightly over $15 million per year to the levy base from taxable new growth (exclusive of the reclassification of the Prudential Center as taxable property — see below "CHAPTER 121A"). This is certainly low, compared to the increases during the construction boom of the mid-eighties, but nonetheless has permitted crucial revenue growth to a budget that has operated more and more along the margins.

From FY85 through FY89 assessed property values in Boston increased at an average annual rate of about 22%, thus far outpacing the capped

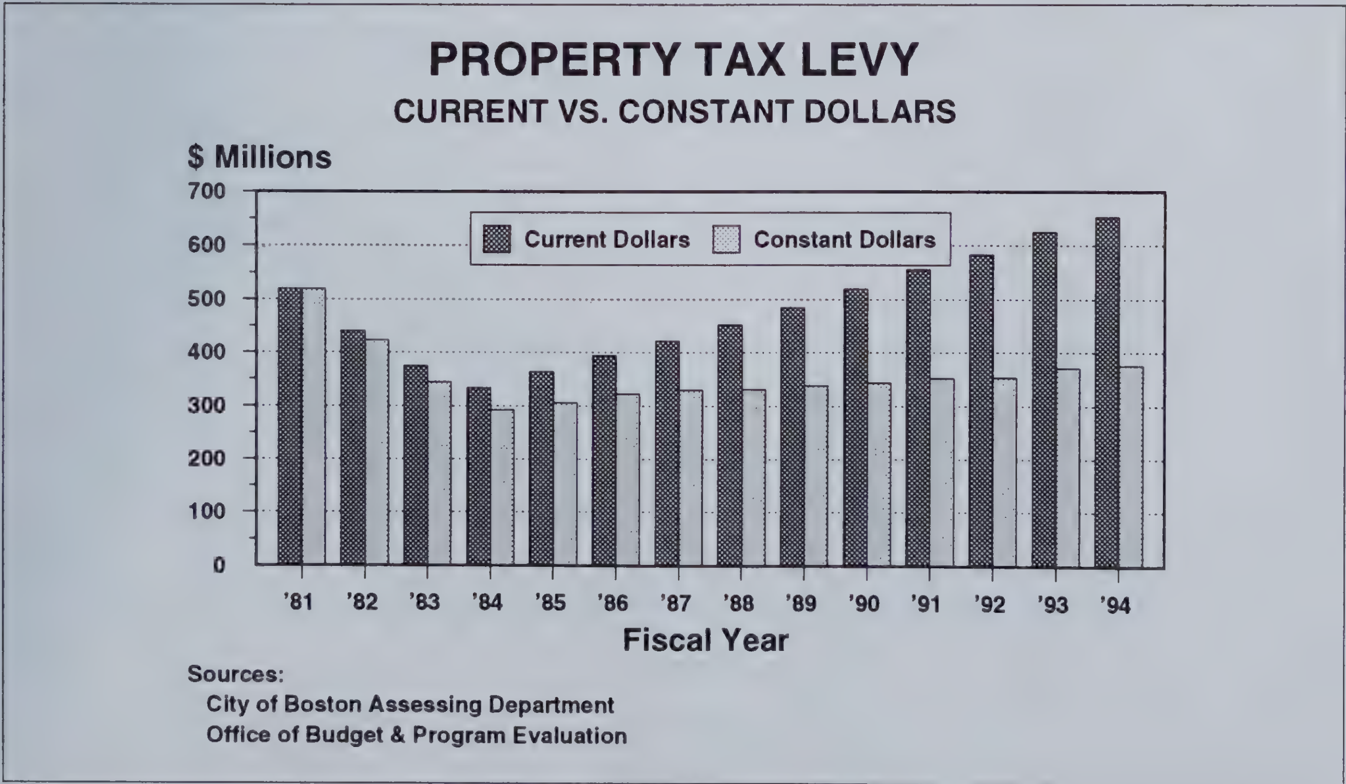


FIGURE 8

growth in the levy. This disparity between value appreciation and levy growth showed up in the significant downward trend in the property tax rates. The City's net effective tax rate in FY84 was 2.5%; by FY89 the net effective tax rate had fallen to 1.4%. When the disparity between value growth and levy growth flows in this direction, the City's property tax base becomes more protected (i.e., more distant from the 2.5% threshold tax rate that the City may not exceed) and growth in average tax bills — with all else held equal — remains at the less-than-inflation 2.5%, even though the factors in the equation that determine the bill (VALUE multiplied by the TAX RATE) have each changed dramatically in opposite directions (values up, rates down).

What occurred in the Boston real estate market, beginning in 1988, significantly reversed the FY85-FY89 property tax trends described above (which reflect real estate activity in calendar years 1983 through 1987). As economic activity slowed, Boston's real estate values leveled off. Then, as the New England region experienced a deep recession, activity in both the commercial and residential markets slowed down more dramatically. Office vacancy rates increased significantly and downtown development came to a near standstill. All of this was reflected in the fourth City-wide revaluation, establishing property values as of January 1, 1991 at $29.8 billion. This represented an 18% decline from the prior year's total taxable value. This was followed with an 8.4% decline registered for January 1, 1992 values to $27.3 billion.

As property values remained level and subsequently decreased, the City continued each year to maximize the allowable levy increase under Proposition 2 1/2. Between FY90 and FY93, the levy increased by an annual average of 6.6%. This disparity (values down, levy up) reversed the previous tax rate trend: From FY82 to FY89, the tax rate had decreased every year due to values increasing faster than the levy; while from FY90 to FY93, the tax rate rapidly increased. As of FY93, the net effective tax rate stood at 2.3%. As the highest municipal property tax rate in Mas-

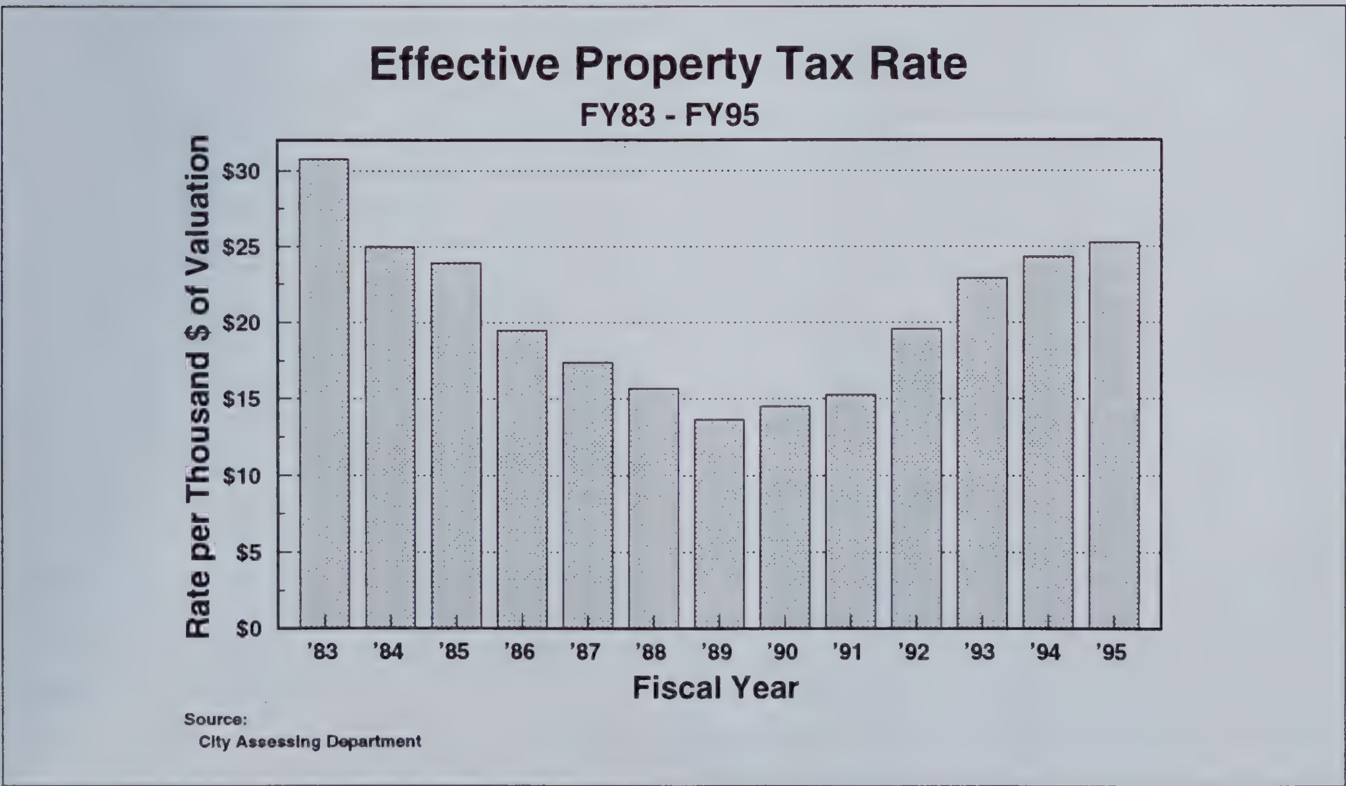


FIGURE 9

sachusetts, it approached the 2.5% Proposition 2 1/2 threshold. This trend has potentially profound implications for the future ability of the City to maintain the current level of services. Consequently, the City's Assessing Department in 1992 carefully analyzed the Boston real estate market in order to estimate the likelihood that Boston's tax rate would reach 2.5% and thus force the City to forego some of its property tax revenue growth, or in the worst case, undergo a mandated reduction in the property tax levy. **(Figure 9.)**

A report, issued by the City Assessor in September 1992, reviewed real estate market indicators such as sales, rents, expenses, vacancy rates, interest rates, and capitalization rates from a number of sources. At the time, the FY93 tax rate had not been set, so the Assessor was projecting the levy, values, and tax rates for FY93 as well as for FY94 and FY95. The property values for these tax rates are based upon market activity in calendar years 1991, 1992 and 1993. Thus, only the FY95 estimates were fully dependent upon economic forecasts. The Assessor concluded that the FY93 and FY94 property values (including taxable new value) would decrease by 8.5% and 2.1%, while values for FY95 would remain level. Thus, even with the minimal increases in the levy from the 2.5% increase and from taxable new value, the Assessor projected the City would hit the 2.5% tax rate threshold in FY95 and would even have to forego $3.1 million of the 2.5% allowable increase in that fiscal year.

The FY93 tax rate serves as an addendum to the Assessor's September 1992 report: Values decreased by 8.4% rather than 8.5%; and the taxable new value addition to the levy was $4 million greater than predicted. When these actual numbers are plugged in to replace the Assessor's projections for FY93, the conclusions are similar though slightly more severe: the City is still expected to hit the 2.5% tax rate threshhold in FY95 and will have to forego $7.1 million of the 2.5% allowable increase in that fiscal year.

## CHAPTER 121A

The Urban Redevelopment Corporation excise is a municipal excise in-lieu-of-tax for which the state acts as the collector and distributor. This revenue item experienced very solid growth between FY81 and FY88, increasing from $13.5 million to $32.3 million. Since FY88, this revenue source has remained relatively stable. In FY92 the City collected Chapter 121A, section 10 distributions of $32.2 million. The projected FY93 decline to $23.7 million is due to the Prudential Center development switching from Chapter 121A classification to regular Chapter 59 property taxation. This decline was more than compensated for in FY93 by the amount Prudential paid in property taxes. In FY94, Chapter 121A revenues are forecast to remain at this new level.

The Chapter 121A legislation, passed in 1960, allows local governments, in cooperation with their redevelopment authorities, to suspend the imposition of property taxes at their normal levels on properties determined to be blighted, in order to encourage redevelopment of such properties by special corporations organized under this legislation. (Boston at the time had gone through an extended period of limited major new development.) The formula for the 121A, section 10 excise in-lieu-of-tax is the greater of: (a) $10 per $1,000 of the value established at the time in which the excise first becomes payable plus 5% of current gross income, or (b) the current tax rate times the average of the last three years' assessments (or the current assessment if that is less). During FY92, the state removed 121A excise tax receipts from the cherry sheet, thereby distinguishing between state aid and state collection of a local revenue source.

## HOSPITAL INCOME

The City currently operates Boston City Hospital, a 357-bed acute-care hospital that is in the final stages of being rebuilt. The City financed the renovation and new construction after securing, in 1990, a Federal Housing Administration loan guarantee. Upon completion of the largest capital project ever planned by the City, Boston City Hospital should be a far more efficient and modern

facility. The new Boston City Hospital is expected to be in full operation before October 1, 1993.

In addition, the City operates Boston Specialty and Rehabilitation Hospital (BSRH), a chronic care facility with 120 beds. Another chronic care facility, Long Island Hospital, was closed near the end of FY91. Currently, Boston City Hospital accounts for over 90% of the City's hospital reimbursements. Over the years, both chronic care facilities' expenditures tended to exceed their reimbursements. The City is now reviewing the feasibility of BSRH's continuing to operate without a sizeable subsidy from the City. Because of the squeeze on the City's limited financial resources, closure of the facility in the near-term is considered necessary should the Department of Health and Hospitals not be able to come up with a means of eliminating the subsidy.

The largest form of payment for the patients cared for at Boston City Hospital is reimbursement for uncompensated care coming from both the statewide uncompensated care pool and Medicaid. The second largest form of payment is Medicaid; the third, Medicare. Blue-Cross/Blue-Shield and commercial insurance play a smaller role than at most hospitals due to the nature of Boston City Hospital's patient population, nearly 80% of which is drawn from the hospital's surrounding lower income neighborhoods and which includes many non-insured and non-paying patients.

In FY90, FY91, and FY92 the City recorded reimbursements from the hospitals totaling $158.0 million, $179.9 million, and $168.2 million. The large increase in FY91 was due, first of all, to the significant payments to Boston City Hospital for settlements of prior year Medicaid rates. These payments were partly financed by the state from debt issuance as the state attempted to catch up with several years of rate settlements. This "catching up" continues a long tradition that has generally been characterized by periods of delayed reimbursement, alternating with suddenly accelerated or lump-sum payments to catch up with prior years' liabilities. In some years, this has occurred because of the delay in replacing acute care hospital reimbursement legislation that has expired, or because of gradual implementation of the new legislation. In addition, the normal stream of reimbursements to the chronic hospitals were supplemented by sizeable Medicare settlement payments that were relatively unique.

Chapter 495 of the Acts of 1991, the most recent legislation governing statewide health care reimbursement, moved Massachusetts decisively in the direction of market-driven pricing. Hospitals are allowed to set outpatient rates. For inpatient services, prices are capped within each diagnostically related group. Chapter 495 also converted the uncompensated care pool to a free care pool by eliminating payments to hospitals for bad debts. This should allow Boston City Hospital to recoup a larger share of the pool because a very low proportion of the persons receiving uncompensated care at Boston City Hospital have sufficient income to be classified as "bad debts." This, in turn, may partially offset the decrease in Boston City Hospital's traditional Medicaid rate.

The stream of Medicaid and uncompensated care reimbursements during FY92 was the slowest in years, especially in the latter half of the year. This was due both to a later-than-usual supplemental budget for the state's chronically underfunded Medicaid account and to slow implementation of Chapter 495 which significantly altered Boston City Hospital's revenue mix. (It should be noted that the Commonwealth has not yet finalized these regulations which implement a statute that became effective eighteen months ago.)

The City revised its accounting policy to a more explicit accrual basis that allowed late payments for services rendered prior to the end of FY92 to be credited to FY92. This effectively extended the fiscal year by two months for one year only. With one quarter left in FY93 (plus a limited period for accrual) and only one-half of the hospital receipts in, it is questionable whether the City will reach its projection of $158 million. The potential shortfall will be largely determined by how long it takes for the state to finalize regulations for the uncompensated care pool and subsequently make retroactive payments for amounts still due for FY92 and FY93.

Chapter 495 has created downward pressure on Boston City Hospital's revenues. Regulatory limits on hospital charges have been substantially reduced, with an increasing focus on competitive pricing. In light of new payment mechanisms under Chapter 495, reduced state regulation of hospital bed expansion that has aided and abetted approximately $1 billion of ongoing or planned construction projects in Boston and generally increased competition, a segment of the traditional Boston City Hospital service area population has become increasingly attractive to other hospitals, leading to a decrease in Boston City Hospital's utilization rate during 1992. The pressure to compete directly with other hospitals will translate into pressure to cut costs given limited City revenues to support a Boston City Hospital's subsidy. **(Figure 10.)**

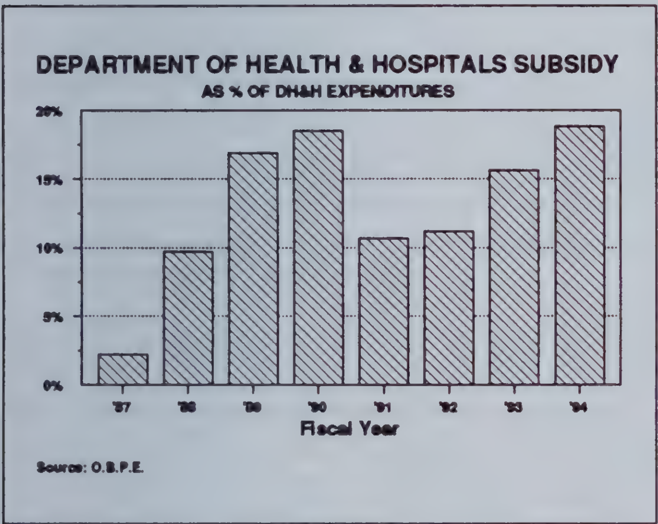


FIGURE 10

## EXCISE TAXES

**Motor Vehicle Excise.** The motor vehicle excise tax underwent mandated Proposition 2 1/2 cutbacks similar to those in the property tax levy, resulting in a reduction in excise revenues of nearly 60% between FY80 and FY82. Beginning in FY83, motor vehicle excise exhibited steady growth and was the City's fastest growing recurring revenue source between FY84 and FY86. Part of the growth was due to an improved collection effort by the City for prior years' bills. Furthermore, during the mid-eighties the dramatic annual growth in Massachusetts in personal income increased the purchasing power of local consumers. The fall of 1986 was a particularly intensive period of high volume for new car purchases due to the combination of low financing and the motivation to buy

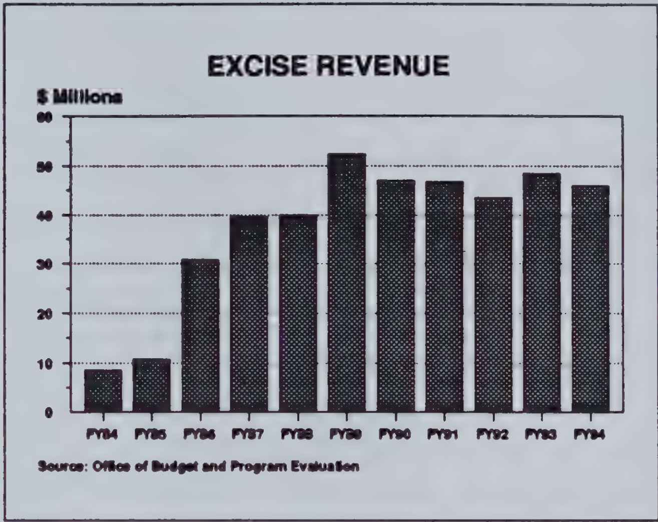


FIGURE 11

before federal tax reform changed the rules on interest deductions. Consequently, the City continued to experience solid growth through FY89, with the exception of FY88 when administrative problems at the Registry of Motor Vehicles slowed down the billing process.

From FY89 through FY92, in contrast to the preceding years, growth in motor vehicle excise receipts disappeared as the City received $20 million, $18.9 million, and $18.9 million in FY90, FY91, and FY92. Car purchases slowed down dramatically during the 1990-1991 recession and during the extended periods of relatively slow economic growth that preceded and followed both the recession. Because the motor vehicle values upon which the 2.5% levy is applied are decreased annually based upon an aggressive depreciation schedule, it is not at all surprising for Boston and other municipalities to see a decline in this revenue item during a recession when few consumers are buying new cars.

The City revised the FY93 motor vehicle excise projection from $20 million to $23.7 million. An aggressive effort to collect on prior year bills has had a major impact on FY93 collections. Delay in issuance of bills in FY92 has effectively pushed some of the payments from FY92 into FY93. In addition, as employment growth and consumer confidence have finally revisited New England, albeit on a modest scale, more people are returning to the market for new car purchases. The City's motor vehicle excise revenue in FY94 is projected to decrease to $20.5 million, as neither of the one-time boosts in FY93 (prior year collections and delay in the prior year's billings) will be a factor in FY94 collections.

**Room-Occupancy Excise.** In 1985, state legislation was enacted authorizing local option excise taxes on room-occupancy rates and jet fuel. These taxes were the first new revenue sources available to the City since the motor vehicle excise was enacted in 1928. The Commonwealth collects these taxes and distributes them to the City. In their start-up years (initiated in FY86; first complete year of collection in FY87), the jet fuel and room-occupancy excises provided needed revenue growth to the City. **(Figure 11.)**

The room-occupancy excise amounts to 4% of the total amount of rent for each occupancy (in addition to the existing statewide 5.7% excise). These receipts are driven by the fluctuations in room rates and the percentage of room-occupancy. Since the institution of the excise, very few hotel rooms have been added in Boston. The growth of this revenue source has mirrored the economy: growth was fast paced during FY87-FY89, modest during FY90-FY91, and replaced by a major decrease in FY92. Boston's occupancy and room rates are among the highest in the country but, have decreased slightly during the recent recession which negatively impacted the level of tourism and business travel, both discretionary spending items that inevitably suffer setbacks during a recession. Healthy economic growth returned in the last quarter of 1992, and not surprisingly, the City's room-occupancy receipts are exceeding the prior year by 13.3%. The City projected for FY93 $13 million in room-occupancy receipts in its revised projections last December. The improved short-term economic outlook is the underlying assumption for the projected increase up to $14.1 million for FY94.

**Jet Fuel Excise.** In addition to the room-occupancy excise, the legislature in 1985 enacted a local option excise on the sale of jet fuel at a rate of 5% of the average sales price, but not less than five cents per gallon. The City actually collected the greatest amount for this new excise in its first full year, FY87. One reason that the jet fuel excise has tended not to increase is that the five cents per gallon has generally been the operative rate since the price per gallon has generally remained under one dollar. In other words, jet fuel prices do not have an impact on excise collections as long as the price has remained under one dollar. Another underlying major factor which limits jet fuel excise growth is the increased fuel efficiency of commercial aircraft which use Logan Airport. Because fuel is such a major portion of their expenditures, airlines are strongly motivated to increase the fuel efficiency of their fleet. For example, the percentage of scheduled Logan passenger operations in more fuel efficient "stage-3" aircraft increased from 23% to 41% between 1984 and 1988.

From FY89-FY91, jet fuel excise receipts ranged from $13.0 million to $13.3 million. In FY92 jet fuel receipts fell by 12.8% to $11.6 million. As noted above, tourist and business travel to the region has declined due to economic pressures, contributing to the decreases for both the jet fuel and room-occupancy excises in FY92. In spite of improvement in the economy, FY93 receipts to date are running behind FY92. The City projects this revenue source to come in at $11.7 million in FY93 and has budgeted $11.4 million in FY94.

**Real Estate Transfer Excise.** The City had been receiving a real estate excise tax (commonly referred to as the condo excise) since FY83. Until FY90, these receipts were earmarked for the payment of the Funding Loan Act of 1982 bonds (commonly referred to as the Tregor bonds). During the peak of Boston's hot real estate market in the mid-1980's, over $2 million per year was realized via

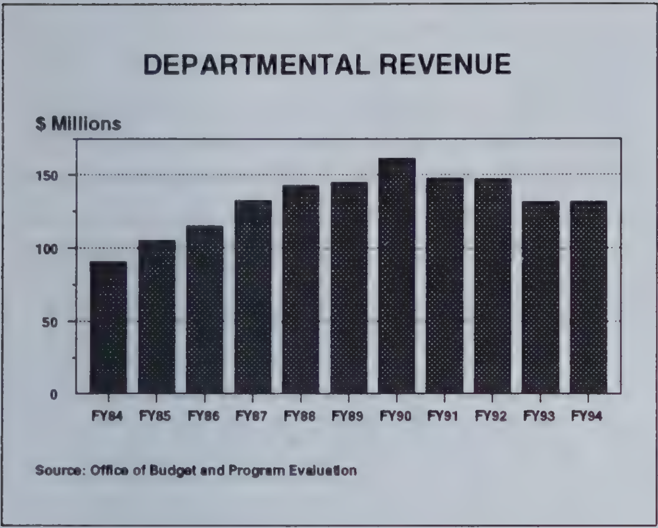


FIGURE 12

the real estate transfer tax. This was one reason Boston was able to retire the Tregor bonds early. Since the City completed payment on the bonds in FY90, the condo excise receipts have been deposited in the General Fund, but there have been diminishing returns. In FY91 and FY92 the City only received $156,000 and $50,500. The decrease is due to the fact that a significant portion of units in the City have already been converted to condominiums, and that conversions slow down in a sluggish real estate market. The FY93 projected amount of $40,000 and the FY94 amount of $50,000 reflect these facts.

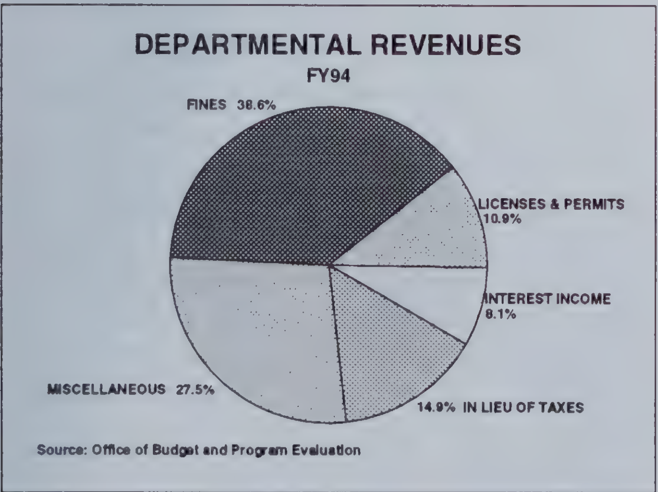


FIGURE 13

## DEPARTMENTAL REVENUES

Departmental revenues consist of approximately 120 miscellaneous accounts, including such diverse revenue sources as health inspection fees, cemetery fees, parking fines, and interest income. In FY94, the City projects it will bring in $131.4 million in departmental revenues, approximately the same as projected in the FY93 revised estimates. Departmental revenue accounts for approximately 10% of total General Fund revenues in both FY93 and FY94, a slight decrease from prior years. The fee and fine levels for many departmental revenues is under the direct control of the City. For example, changes in the City's fee or fine structure can result from either administrative actions or a vote of City Council, unlike new tax options or local aid distributions which require approval from the state legislature. The most recent package of fee and fine increases was proposed, approved, and implemented just prior to the beginning of FY91. Not under control of the City, however, is the level of economic activity that determines the number of permits or licenses or even fines that will be issued by the City. Recently, due to the economic slowdown, the City's departmental revenues have decreased. **(Figure 12.)**

Many major revenue items increased during the 1980's, but have fallen back in the last few years. Building permits increased dramatically from FY84 to FY88, but have subsequently decreased. Interest income increased dramatically from FY84 to FY89 but decreased in FY90 through FY92. Payments-in-lieu-of-taxes have experienced mild increase if the impact of the switchover to regular taxation by the Prudential Center is factored out of the comparison. Parking fine revenue peaked in FY91 after increasing for several years. All these items are described in more detail below. Altogether these sources have represented, on average, over 60% of departmental revenues in the last several budgets. **(Figure 13.)**

**Parking Fine Revenues.** In FY83, receipts more than doubled from the prior year as a result of the transfer of parking enforcement authority from the district courts to the City. Between FY84 and FY88, parking fine receipts outpaced inflation.

Major factors figuring in this growth included non-renewal of violators' registrations and licenses by the state Registry of Motor Vehicles until penalties are paid, increased fines for public safety violations, increased booting, increased ability to get fine payments from rental agencies, and systematic collection of fines for company cars.

FY92 parking fine receipts totalled $46.9 million, $3 million less than their peak in FY91. This was the first such decrease since the administrative transfer from the district courts occurred. The decrease was driven largely by a lower ticketing level which has occurred as the economic downturn has reduced the number of commuters, business travelers, and tourists coming into Boston. Consequently, parking lots are no longer as full and have actually lowered rates, perhaps attracting some would-be-scofflaws. The lower ticketing level during FY92 has directly impacted collections during FY93. FY93 parking fine receipts are expected to come close to the projection of $46.5 million, revised in December from $46 million in the original FY93 budget submission. The issuance level during FY93 is very similar to that in the prior year, but collections have come in at a slightly better rate.

**Investment Income.** Interest rates have fallen dramatically, with the Federal Funds rate dropping from just over 8% to an historically very low 3% in the 30 months from October, 1990 through March, 1993. This has been partly due to a conscious effort by the Federal Reserve Board to revive the economy with lower interest rates. One consequence, however, has been that the City's investment income prospects have been depressed. The City realized dramatic improvement in the area of investment income from FY83 through FY86, paralleling the general overall improvement in the City's finances. Between FY87 and FY89 investment income averaged about $21 million per year. Since then, the City has been experiencing decreases. In FY90, FY91 and FY92 the City realized $16.9 million, $14.5 million, and $10.6 million. In general, the City's level of investment earnings is a function of the prevailing interest rates and daily cash balances. The average daily cash balances have been strained, on the one hand, by the budgeting of some of the City's reserve funds. On the other hand, a conversion to quarterly billing for the property tax and quarterly distribution for local aid — both beginning in FY92 — has had a positive impact. The City is hopeful it will meet its FY93 projection of $10.4 million, revised downward from the original budget projection of $13.6 million. Interest income for FY94 is expected to continue to reflect the low interest rates, resulting in income of $10.6 million.

**Payments-in-lieu-of-taxes.** Receipts for payments-in-lieu-of-taxes over the last several years have been a stable source of revenue. Approximately 70% of this revenue comes from MassPort and the voluntary Section 6 payments from Chapter 121A urban redevelopment corporations. Because both MassPort and Section 6 payments are based on formulas that tie the payment to some measure of economic growth, these payments have experienced significant growth over the long-term, but less growth in recent years. In addition, in recent years, many non-profit entities have entered into new payments-in-lieu-of-taxes agreements with the City. These agreements include some of the major universities and hospitals located in Boston. The City recognized a 49% increase in FY92 due to an additional one-time payment by the commercial portion of the Prudential Center to cover its last six months of 121A status prior to converting to normal Chapter 59 property taxation. The FY93 and FY94 projections of $19.7 million and $19.8 million are slightly less than average compared to levels in recent years because of the changeover by the Prudential Center.

**Building Permits.** The City experienced a substantial upswing in building permit revenue between FY82 and FY86. This upswing was related to a dramatic increase in the level of development that took place in Boston over that period. In addition, improvements in the Inspectional Services Department administrative and monitoring procedures provided more vigilant oversight and more accurate estimates of building project costs.

Projections of building permit revenue are difficult, since the unpredictable timing of large-scale

projects can result in dramatic swings upward or downward. Between FY86 and FY88, revenue from building permits continued to grow modestly. Subsequently, the City has experienced a dramatic reversal of fortunes in this area: Building permit revenue plummeted from $14.4 million in FY88, to $11.4 in FY89, to $8.1 million in FY90, and to $6.7 million in FY91. This downward slide is not too surprising given the downswing in new development and renovation activity. For FY92, building permit revenues of $9.1 million exceeded expectations as area hospitals embarked on ambitious building programs. Current projections return to the levels of $7.0 million in FY93 and $7.2 million in FY94.

## BUDGETARY FUND BALANCE

Budgetary fund balance, also referred to as "free cash," is most simply described as the portion of the available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending. The law governing the calculation and availability of budgetary fund balance for cities and towns is Chapter 59, section 23 of Mass. General Law, and is administered by the Massachusetts Department of Revenue's Bureau of Accounts.

The City accelerated its use of its budgetary fund balance as the Commonwealth dramatically cut back on local aid. By balancing expenditure reductions with drawing down of available reserves, the City has been able to mitigate reductions in basic services during the state's defunding of local aid. However, due to a number of factors, this option is not available for the City in the near-term.

State law permits two ways of certifying free cash. The first method is to add accumulated surpluses and subtract accounts receivable as of the last day of the fiscal year. Any resulting positive balance is generally available for appropriation during the subsequent fiscal year. The second method is to update the City's property tax receivables during the course of the year (up through March 31st). Outstanding prior year property tax billings collected during the current year are netted into an adjusted free cash balance, which if positive, is available for appropriation until June 30th.

The City had an operating deficit for ten straight years between FY76 and FY85. In all of those years, the City also had a negative free cash balance. The City's fiscal turnaround was first fully confirmed with its first operating surplus in over a decade in FY86. The City has had small operating surpluses ever since. Beginning with FY86, the June 30th free cash balance was positive for five straight years, thereby freeing up funds for appropriation in the subsequent year budgets. The City appropriated from budgetary fund balance $4.0 million for FY87, $13.4 million for FY88, $15.0 million for FY89, $20 million for FY90, $38.6 million for FY91, and $10.9 million for FY92.

Several factors influenced the decision to make these appropriations of budgetary fund balance: 1) Fund equity had built up steadily over a long period of time, turning positive in FY83 and increasing every year through FY90; 2) A very high rate of collection on current year property taxes had been achieved and subsequently sustained over several years; 3) Boston had exceeded its revenue estimates from FY85 through FY90; 4) Personnel spending continued to be successfully controlled through a quarterly allotment system mandated by Mass. General Law; and 5) The City had reduced spending and personnel in many areas to adjust for significant cuts in local aid.

Due primarily to the necessity of using the maximum allowable amount of available fund balance in order to offset local aid reductions in FY90 and FY91, the City's June 30, 1991 free cash balance was negative for the first time since 1985. Due to the further appropriation of $10.9 million in FY92 made available from the March 31, 1991 free cash update, the City's June 30, 1992 free cash balance was again negative. Other factors which have also affected the negative free cash calculations were the small size of the FY91 and FY92 operating surpluses and a greater amount of properties being reclassified into tax title without a concomitant increase in receipts for tax title properties.

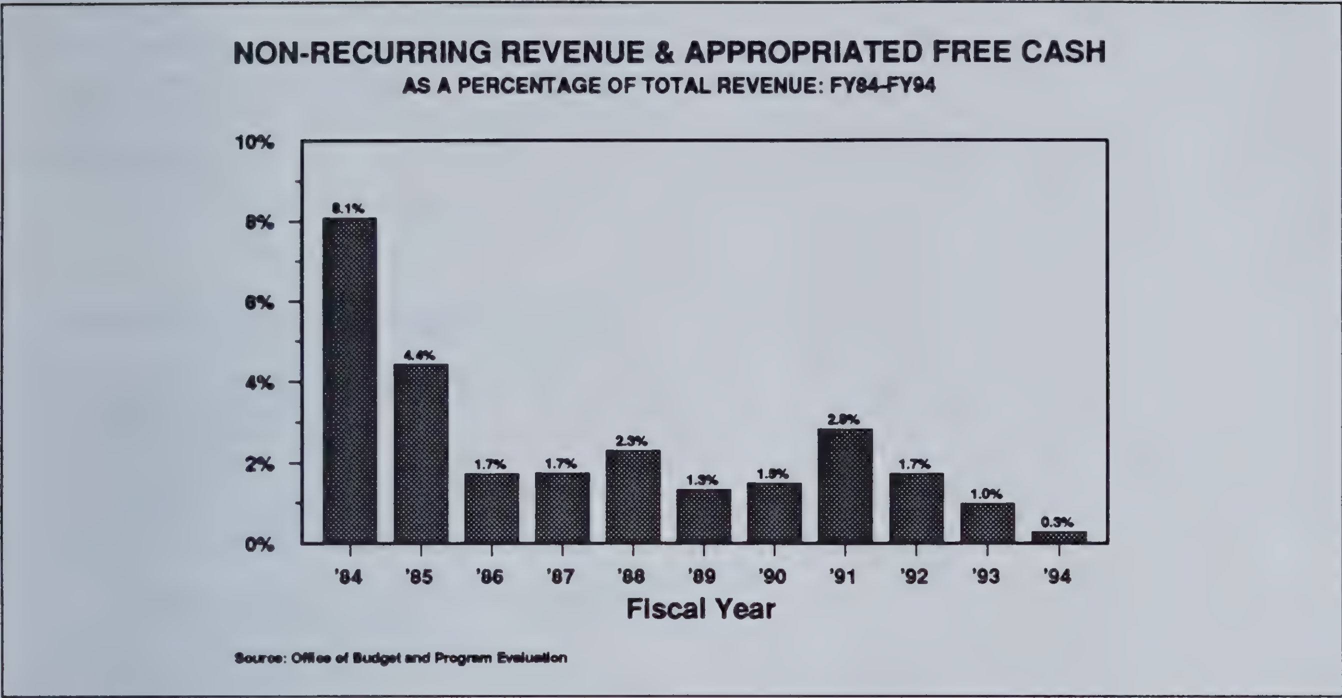


FIGURE 14

In FY91, fund equity reflected that year's record appropriation of free cash and decreased in comparison to the previous year for the first time since FY80. Fund equity fell again in FY92. The collection of prior year property tax receivables during the first nine months of FY93 has not been sufficient to eliminate the negative free cash balance at the end of FY92. The City does not currently anticipate being able to appropriate additional funds from the available fund balance in the near future.

## NON-RECURRING REVENUE

Over the course of five budgets (FY84-FY88), non-recurring revenues were used to offset both the City's final cut to the property tax levy under Proposition 2 1/2, and to relieve the City from a string of operating deficits going back to FY76. During that period, the five year combined total of prior year deficits (both operating and overlay), plus the FY84 levy reduction, equalled approximately $185 million. During that same five year cycle, the City supported its budgets with $166 million in non-recurring revenues. The four largest categories of non-recurring revenues were: 1) $40.8 million in FY86-FY88 from excess pension fund interest, a transfer allowed by a state law which fully phased out such use of excess interest as a budgetary offset from FY89 onward; 2) the sale of garages, which produced $40.7 million in FY84 and FY85; 3) $34.1 million in disproportionate assessment funds in FY84; and 4) $19.6 million in excess reserves for abatements in FY84. These four items constitute over four-fifths of the FY84-FY88 non-recurring total. **(Figure 14.)**

Following a three year hiatus of the use of non-recurring revenue to support the operating budget, the Administration's FY92, FY93, and FY94 budgets are supported by $12 million, $12.8 million, and $3.5 million in sale of property receipts. All of the FY93 and FY94 amounts and all but $2 million in FY92 will have been proceeds from the $44 million sale of land related to the Central Artery project. As a matter of prudent fiscal policy, it has been the Administration's policy to spread the incorporation of Central Artery sale proceeds into General Fund revenue over several years in order to minimize any resulting structural gap between the City's recurring revenues and expenditures. It is believed that this limited use of non-recurring revenue, along with a stringent control of spending, will be sufficient to keep the

City's budget in balance for the immediate future. However, use of non-recurring revenue must not be seen as a permanent alternative to resumption of sufficient local aid to meet the state's responsibilities to the City.

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1 Massachusetts Economic Indicators (MEI), Feb. 1993, p E8.
2 Wall Street Journal (WSJ), March 5, 1993; p A1.
3 WSJ, March 4, 1993; p A2.
4 WSJ, March 10, 1993; p A1.
5 WSJ, Feb. 18, 1993.
6 City & State, Feb. 1-14, 1993; p 1.
7 Federal Reserve Bank of Boston - New England Economic Indicators (NEEI) series.
8 NEEI series.
9 Commonwealth of Massachusetts Official Statement (OS-Mass.), Feb. 15, 1993; p Exhibit A-3.
10 OS-Mass., Feb. 15, 1993; p Exhibit A14-15.
11 Boston Business Journal (BBJ), March 19-26, 1993; p 4.
12 NEEI series.
13 OS-Mass., Feb. 15, 1993; p Exhibit A12-13.
14 BBJ, Feb. 19, 1993; p 1.
15 Unless otherwise noted in "State Budget" section, the source for data and information is: OS-Mass., Feb. 15, 1993; p Exhibit A12-38.
16 The source for expenditure growth from FY83-FY86 is "State Budget Trends" (SBT) series, published annually during the 1980s by the Massachusetts Taxpayers Foundation, Inc.
17 City & Town, Massachusetts Department of Revenue Division of Local Service; August 1992, p 1.
18 ibid., footnote 17.
19 ibid., footnote 17.
20 OS-Mass., Feb. 15, 1993; p A28.
21 SBT series.
22 ibid., footnote 21.

| ACCT. # | ACCOUNT NAME | | FY 1992 ACTUALS | FY 1993 BUDGET | FY 1994 BUDGET |
|---|---|---|---|---|---|
| | **MISCELLANEOUS DEPT. INCOME** | | | | |
| 011-3105 | VITAL STATISTICS | | 807,358 | 820,000 | 800,000 |
| 011-3109 | LIENS | | 564,100 | 550,000 | 600,000 |
| 011-3120 | CITY CLERK - FEES | | 301,992 | 300,000 | 300,000 |
| 011-3135 | RENT EQUITY SERVICES | | 534,451 | 950,000 | 900,000 |
| 011-3137 | PUBLIC HEALTH SUPPORT PAYMENTS | | 0 | 2,000,000 | 0 |
| 011-3202 | POLICE SERVICES | | 618,087 | 550,000 | 550,000 |
| 011-3211 | FIRE SERVICES | | 1,333,619 | 1,350,000 | 1,350,000 |
| 011-3301 | PARKING FACILITIES | | 3,129,401 | 1,391,350 | 1,400,000 |
| 011-3311 | STREET, WALK & CURB REPAIR | | 5,396,917 | 1,800,000 | 1,700,000 |
| 011-4002 | TUITION & TRANSPORT - SCHOOLS | | 617,484 | 500,000 | 500,000 |
| 011-7117 | WORKERS' COMP. REIMBURSEMENT | | 1,297,640 | 1,450,000 | 1,250,000 |
| 011-7119 | SETTLEMENTS | | 544,430 | 200,000 | 250,000 |
| 011-7131 | PENSIONS & ANNUITIES | | 1,570,360 | 2,200,000 | 2,200,000 |
| 011-7132 | FRINGE BENEFITS & INDIRECT | | 449,331 | 700,000 | 700,000 |
| 011-7155 | PRIOR YEARS REIMBURSEMENTS | | 1,677,952 | 1,000,000 | 1,000,000 |
| 011-8000 | PRIVATE DETAILS - 10% ADMINISTRATION | | 1,565,313 | 1,500,000 | 1,400,000 |
| | OTHER MISC. DEPT. INCOME | | 1,615,050 | 2,275,230 | 1,603,980 |
| | | SUBTOTAL | 22,023,486 | 19,536,580 | 16,503,980 |
| | **PENALTIES & INTEREST** | | | | |
| 011-0133 | PENALTIES & INT. PROPERTY TAX | | 1,452,513 | 1,200,000 | 1,600,000 |
| 011-0134 | PENALTIES & INT.: MOTOR VEHICLE TAX | | 980,446 | 900,000 | 1,500,000 |
| 011-0136 | PENALTIES & INT.: TAX TITLES | | 3,382,069 | 3,300,000 | 4,000,000 |
| | | SUBTOTAL | 5,815,029 | 5,400,000 | 7,100,000 |
| | **COUNTY** | | | | |
| 011-5106 | REGISTRY OF DEED FEES | | 1,849,864 | 1,400,000 | 1,580,000 |
| 011-5111 | NEW COURT HOUSE | | 0 | 1,145,082 | 1,320,000 |
| 011-5112 | COUNTY DEEDS EXCISE | | 0 | 0 | 0 |
| | OTHER COUNTY REVENUE | | 48,819 | 45,000 | 45,000 |
| | | SUBTOTAL | 1,898,682 | 2,590,082 | 2,945,000 |
| 011-2503 | PARKING METERS | | 8,000,000 | 9,000,000 | 9,000,000 |
| 011-2502 | CEMETERY TRUSTEE | | 1,800,000 | 1,418,076 | 600,000 |
| | **HEALTH & HOSPITALS** | | | | |
| 011-3401 | CITY HOSPITAL | | 156,735,563 | 151,000,000 | 149,400,000 |
| 011-3411 | LONG ISLAND | | 1,709,521 | 0 | 0 |
| 011-3421 | MATTAPAN | | 9,766,743 | 7,000,000 | 6,700,000 |
| | | SUBTOTAL | 168,211,827 | 158,000,000 | 156,100,000 |

| ACCT. # | ACCOUNT NAME | | FY 1992 ACTUALS | FY 1993 BUDGET | FY 1994 BUDGET |
|---|---|---|---|---|---|
| | **STATE DISTRIBUTIONS** | | | | |
| | R.E. ABATES, & ELDERLY EXEMPTS | | 1,469,382 | 1,480,903 | 1,480,903 |
| 011-1111 | STATE LOTTERY LOCAL AID | | 25,328,750 | 27,232,544 | 27,232,544 |
| 011-1112 | HIGHWAYS - LOCAL AID | | 1,516,244 | 828,848 | 828,848 |
| 011-1114 | VETERANS SERVICES - LOCAL AID | | 1,702,552 | 1,397,000 | 1,397,000 |
| | STATE OWNED LAND | | 0 | 280,594 | 280,594 |
| | RESOLUTION AID | | 273,189,022 | 251,602,060 | 251,602,060 |
| | NEW STATE AID | | 0 | 0 | 0 |
| 011-1117 | PUBLIC LIBRARY - LOCAL AID | | 0 | 0 | 0 |
| 011-4103 | LIBRARY OF LAST RECOURSE | | 1,903,389 | 0 | 0 |
| 011-1119 | RACING TAXES | | 0 | 350,000 | 350,000 |
| 011-1301 | SCHOOL CONSTRUCTION - STATE | | 13,322,452 | 13,452,981 | 13,159,000 |
| 011-1311 | TRANSPORTATION OF PUPILS | | 10,164,524 | 10,225,908 | 10,225,908 |
| 011-1316 | TUITION FOR STATE WARDS | | 0 | 0 | 0 |
| 011-1308 | RECREATIONAL PROGRAMS | | 0 | 0 | 0 |
| | | SUBTOTAL | 328,596,314 | 306,850,838 | 306,556,857 |
| 011-1115 | REIMBURSEMENT, TEACHERS' PENSIONS | | 26,410,734 | 27,184,374 | 28,000,000 |
| 011-2504 | BUDGETARY FUND BALANCE | | 10,906,620 | 0 | 0 |
| 011-2500 | SALE OF PROPERTY | | 12,015,950 | 12,764,844 | 3,841,260 |
| | **GRAND TOTAL** | | 1,324,202,540 | 1,298,927,699 | 1,317,834,898 |

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# STATE MANDATES/MUNICIPAL INSTABILITY

A little discussed but very real factor compounding the municipal financial crisis in Massachusetts is the impact of state mandates and maintenance of effort requirements on local spending decisions. Municipalities are virtually required to spend scarce resources in certain ways or risk losing vital state funds. The Commonwealth is using minimal state dollars in a virtual leveraged buyout to control local decision-making.

Cities and towns throughout Massachusetts are struggling to maintain basic services. The combined impact of inadequate local aid and the restrictions of Proposition 2 1/2 have come together to highlight a flawed municipal financial structure. The combination of this limited revenue base, and mandates which seriously constrain local decisions about spending priorities, leave communities in an untenable position.

A state mandated expense is an expense which the state requires the municipality to make. The Proposition 2 1/2 statute ostensibly protects communities from such mandates, although communities have had to remain viligant to ensure that the Legislature does not void this protection.

There is however, another state control over municipal spending, the maintenance of effort requirement, which has the same effect as an unfunded mandate. Maintenance of effort (MOE) requirements are state laws that tie specific categories of state funding to prescribed levels of local matching funding. When a community faces a serious revenue shortfall, it seldom has the option of ignoring state matching requirements and forfeiting the state grants.

In Boston, state mandates in the form of maintenance of effort (MOE) requirements associated with $59.5 million in state funding are matched by $411 million in City spending. (See Figure 1.) Thus .5% of the Commonwealth's discretionary spending controls 40% of City's departmental spending. This 1:80 ratio gives the state control over decisions about local priorities at very little state cost by threatening to withhold funds which the City cannot afford to give up.

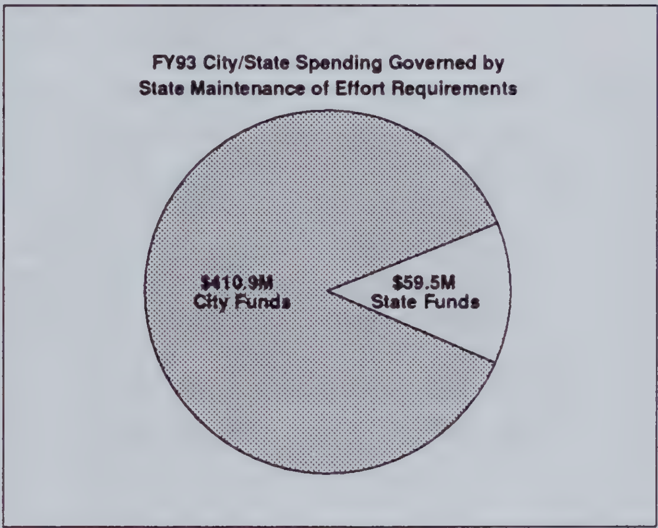


Figure 1

MOE (matching) requirements normally are used to ensure that additional funds are not substituted for current funding, but rather are used for program expansion. Matching requirements make sense when local revenues are growing and base funding levels are routinely maintained. MOE's can seriously distort local spending decisions, however, when reduced local revenues force spending reductions. In this situation, MOEs limit local officials' ability to make appropriate decisions about spending priorities. If the matching requirement means

that funding in one area **cannot** be reduced, it forces a disproportionate decrease in other areas.

The three specific state MOE/mandate categories that are currently posing serious constraints on $411 million of spending decisions in Boston include matching requirements related to educational spending, and library and corrections appropriations. Each of these MOE requirements are described below. While each is different, in combination, they jointly impose a significant limitation on Boston's ability to distribute resources in the way that best meets local needs.

**FY93 Spending Mandated by State Maintenance of Effort Requirements ($ in millions)**

| | City Spending | State Spending |
|---|---|---|
| Boston Public Schools | $374.0 | $10.3 |
| Boston Public Library* | 22.6 | 8.0 |
| Suffolk County Sheriff* | 14.3 | 41.2 |
| Total | $410.9 | $59.5 |

* Includes health insurance and pension benefits.

Two of these mandates grow out of a common assumption that it is reasonable to require an annual 2 1/2 percent increase in local spending for any given local service. The logic that holds that it is reasonable to require communities to raise all expenditures by 2 1/2 percent each year because the property tax levy increases by 2 1/2 percent is reflected in several state matching requirements.

This logic makes three mistaken assumptions, however. These are: (1) that increases in property taxes reflect increases in total municipal revenues; (2) that municipal priorities are forever fixed; and (3) that fixed costs over which a community has no control will not increase by more than 2 1/2 percent.

None of these assumptions hold. The property tax is only a portion of total municipal revenue. In fact, in Boston the property tax accounts for only about half of total revenue and in recent years has been the only growth revenue. The annual increase in the property tax, however modest, presents an unrealistically optimistic picture of a community's ability to fund any particular service.

Furthermore, it is inevitable that priorities do change in response to changing circumstances. Local government needs the capacity to respond to these changes. Assuming that budgets should automatically increase by 2 1/2 percent suggests otherwise. Finally, even if priorities remain unchanged, so-called fixed expenses, those over which a community has little control, often grow at a faster rate. If utility charges or trash disposal fees, for example, grow by five percent, even though all service priorities remained unchanged, dollars cannot be apportioned evenly, but must be shifted into those accounts from which these faster rising expenses are paid.

## EDUCATIONAL MOE REQUIREMENTS

State matching requirements associated with the per pupil and EEOG categorical grant program enacted by the Legislature in 1992 could impose significant shifts in local spending priorities. In addition, both the House and Senate versions of proposed state educational reform legislation contain local spending mandates that could require additional local spending. The House version, in particular, would, without question, create havoc with Boston budgets over the next several years if enacted without modifications.

The FY93 categorical grant program required Boston to maintain the same proportion of expenditures for educational purposes to expenditures for all purposes in FY93 as in FY92 in order to receive $10.3 million in additional state funds. (See Figure 2.) Boston was able to meet this requirement despite a reduction in school funding partly due to an unrelated change in state treatment of certain types of local aid funds. But the rigidity of this requirement and its insensitivity to particular local circumstances illustrates the problem with MOEs generally.

Because education spending is a priority in Boston, the School Department's budget was protected from local aid reductions until FY93. In fact,

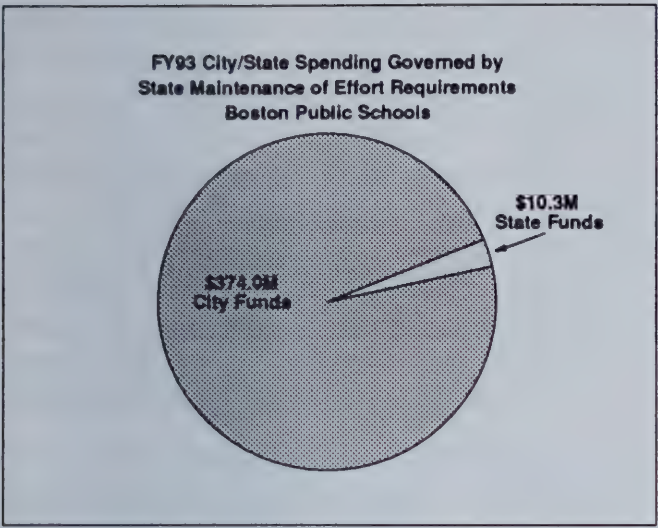


Figure 2

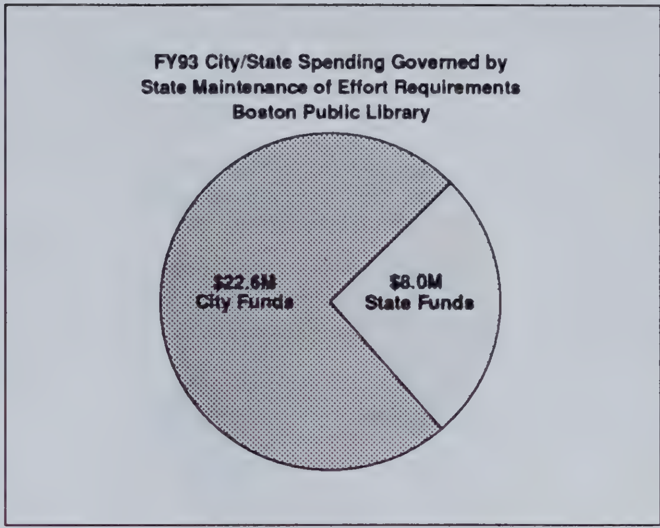


Figure 3

school appropriations increased by 7.5 percent between FY89 and FY92, while other departmental appropriations increased by only 3.4 percent. By FY93, however, with no prospects for additional local aid or other revenue options, Boston was forced to reduce the School Department's appropriation for the first time since FY82. Establishing a new MOE formula that only reflects spending changes in the prior year during a period of multi-year revenue constraints is unfair. It ties the hands of local officials who are responsible for distributing scarce municipal dollars to meet a whole spectrum of local service needs.

## LIBRARY MOE REQUIREMENTS

Boston budgeted $22.6 million in direct appropriations and fringe costs to support the Boston Public Library (BPL) in FY93. To this amount, the state is projected to contribute an estimated $543,000 in state aid to local libraries, $2.98 million to support eastern regional library services at the BPL, and $4.523 to offset the costs as the state's library of last recourse. (See Figure 3.) Attached to this state funding is an MOE requirement that the local library appropriation amount to at least 95 percent of the average appropriation for the immediately preceeding three years. (In FY92 the Legislature reduced this requirement from 102.5 percent of the prior year's appropriation in recognition of the severe impact of local aid reductions.)

A mandate for a certain level of local spending to match state library funding reflects a legitimate state interest in ensuring that these service costs are not being transferred to the state. The $530,000 state aid to libraries grant amounts to only about 2 percent of the cost of local services; Boston could choose to forego this aid if spending constraints dictated that the 95 percent requirement could not be met. The regional and library of last recourse MOE requirements are qualitatively different however.

The BPL's services as a regional library and the state's library of last recourse are state services provided to all residents of the state. The BPL is serving as a state provider, but there is no inherent or automatic connection between the City's appropriation, which is used to support local services provided in large part through neighborhood branch libraries, and the BPL's ability to provide research and specialized services to the region. To tie $7.5 million in state funding for state services to a mandated local appropriation again limits local officials' ability to distribute scarce resources to best meet the needs of Boston residents.

## MANDATED CORRECTIONAL SPENDING

The third category of state mandate that has affected Boston in a unique way is the state requirement that state funds and deeds excise revenues

which support county corrections costs are dependent upon an annual 2 1/2 percent increase in municipal appropriations. The general difficulty caused by a mandated 2 1/2 percent increase has been discussed above. The mandated 2 1/2 percent increase in funding for Suffolk County corrections costs is especially unfair given that Boston, which is entirely responsible for Suffolk County costs, is already paying a much higher than average share of county corrections costs—an expense which should be wholly a state responsibility.

The current inequity between Suffolk and other counties in local contributions comes about because of the unique way in which the state treated Boston between FY89 and FY92. In all other counties, local contributions were collected through state assessments on the local aid cherry sheet and increased at the rate of 2 1/2 percent each year. The Commonwealth, by default, paid for all other (increasing) county correctional costs.

Meanwhile, a fixed share Boston's local aid was designated as a "county corrections grant" and the City was left to pick up most of the remaining, rapidly increasing costs associated with the addition of two new facilities that increased capacity by nearly 500 beds. Despite some additional state grants, Boston's correctional costs rose by 38 percent between FY89 and FY92. If Boston had been treated like other municipalities this increase would have been only 7.7 percent.

Consequently, in FY93 Boston will pay 26 percent of total Suffolk County corrections costs, while other municipalities will, on average, pay for only 7.5 percent of these costs. (See Figure 4.) In some counties where other new facilities have been added, the local share amounts to less than 5 percent.

Corrections is a state responsibility and should be entirely state funded. Inmates move regularly from state to county facilities and back, as well as between county facilities. The Commonwealth funds the capital costs of facility construction and establishes operational standards that all facilities must meet. The Commonwealth oversees all correctional budgets through the County Finance Review Board.

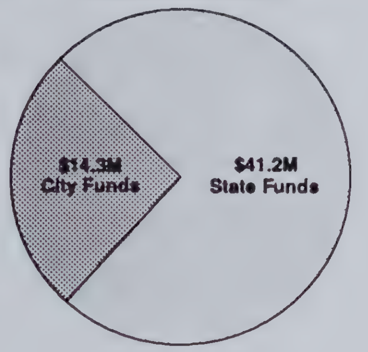


Figure 4

If the Commonwealth continues to avoid the responsibility for full corrections funding, at a minimum the current MOE requirements place an unfair burden on Boston. Again, a rigid matching requirement that is insensitive to particular local circumstances places a significant restriction on the ability of local officials to apportion limited local resources to best meet a wide range of often unique local needs.

## MATCHING REQUIREMENTS BECOME MANDATES

In a period of reasonable revenue growth, MOE requirements can ensure that costs are not shifted from the local community when the state commits additional funding, so long as the local community has a real option not to accept state funds. When local revenues grow at far less than the rate of inflation, MOE requirements distort local priorities because communities have no other revenue options. At that point, matching requirements become mandates and allow the state a disproportionate voice in local decision-making. The disproportion in Boston's case amounts to a virtual leveraged buyout by using $59.5 million in state dollars to control $411 million, or 40 percent of Boston's operating budget.

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# CAPITAL PLANNING FOR BOSTON

## History and Overview

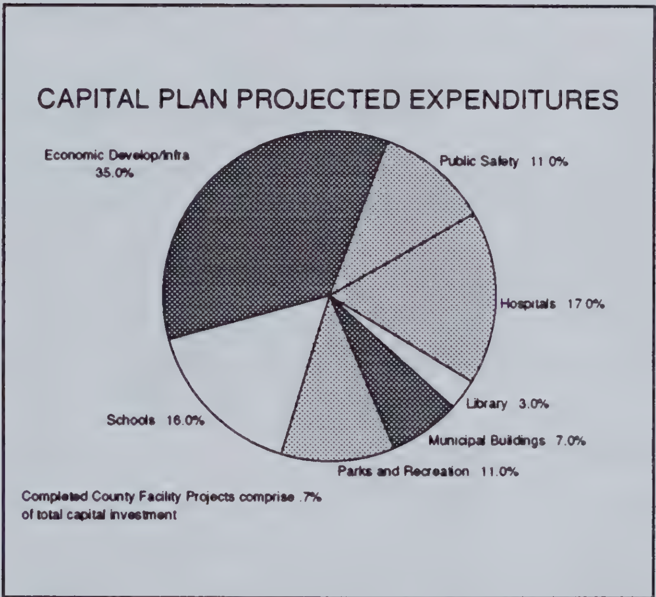
In July 1984, Mayor Flynn created the Office of Capital Planning (OCP). This Office was responsible for the preparation of an annual multi-year capital plan, oversight of capital expenditures, and the monitoring of capital construction and equipment acquisition. In FY93, the Office was formally consolidated within the Public Facilities Department as the Division of Capital Planning (DCP).

In 1984, reform of the City's capital planning procedures was long overdue. It had been almost 23 years since the City produced a comprehensive multi-year capital plan. The absence of such a document to guide project selection and financial planning had resulted in under-investment in certain portions of the City's capital stock, in particular its municipal buildings. Moreover, the fragmentation of capital projects among some 15 City agencies was inefficient and impeded long-range financial planning.

As Boston emerged from a three-year moratorium on capital investment following the passage of Proposition 2 1/2, the backlog of City capital needs, coupled with federal budget cuts and limitations on municipal revenues, made it imperative that future capital decisions be made within the context of a multi-year plan.

The major responsibilities of the Division of Capital Planning are:

- Maintaining a comprehensive inventory of current and future capital projects;
- Establishing procedures for the preparation of capital budgets including a standardized budget format and data collection system for all City departments;
- Coordinating the preparation of loan orders;
- Analyzing the impact of proposed state and federal funding plans on Boston's capital projects;
- Involving neighborhoods in the planning and implementation of Boston's capital program; and
- Coordinating the operational impacts of capital budgets with the Office of Budget and Program Evaluation (OBPE).




Since July, 1984, DCP has established the organizational systems necessary for the preparation and oversight of multi-year capital plans and budgets. To date, eight annual capital budgets have been developed within the framework of five year planning horizons. The most recent, *Rebuilding Boston*, released in February, 1993, presented plans for over $1.2 billion of capital investment.

Working with the Auditing and Treasury Departments, DCP redesigned the City's Capital Fund to account centrally for all capital revenue including

bonds, grants, and private funds. Written procedures and budget manuals have been developed and distributed to City agencies involved with capital construction.

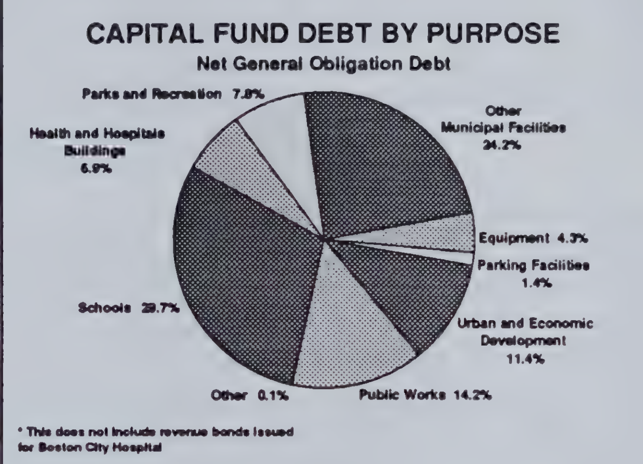
In addition to its capital budget management, DCP functions as coordinator and mayoral advisor on matters of capital policy and research. In this capacity, DCP has prepared the City's open space plan entitled *Boston's Open Space*, chaired the Unified Facilities Planners Committee which prepared a ten year plan for the rehabilitation of Boston public schools, and worked with a number of City and state representatives to secure passage of legislation to fund new construction of Suffolk County Jail and House of Correction facilities.

In its February, 1986 report, the Mayor's Management Review Committee recommended that OCP "should be required to inform the new Office of Budget and Program Evaluation....of the projected operating budget impact of each year's capital budget." This recommendation has been incorporated into both the operating and capital budgets using several mechanisms.

First, a Capital Improvement Program Operating Impact Form was jointly developed by DCP and OBPE. The form is used to estimate the future operational costs of proposed capital projects. Second, DCP and OBPE coordinate the operating and capital budget process by examining the cost of debt service as part of the overall and continuing operating budget expenditures. During the course of the year, DCP, OBPE, and other City financial officials work closely with the City's Collector-Treasurer to determine the necessity, type, and amount of debt needed to be issued to satisfy the funding requirements of capital projects.

## External Funds Coordination

OBPE and DCP are currently developing a control mechanism to examine the fiscal impact of both operating and capital grant monies flowing into the City. Until recently, no management information system existed to capture costs associated with grant applications, including matching funds and fringe costs. As a result, departments occasionally received legal authorization to spend grant funds without fiscal assessment of the impact on the capital or operating budgets. OBPE is now working with DCP and other City financial officials to ensure that this policy is expanded to cover all external funds, both operating and capital.




## FY93-FY97 Capital Plan

The current capital plan calls for expenditures of $1.23 billion. These expenditures are aggregated in the priority areas set forth by the Mayor: economic development and infrastructure improvement, public safety, parks and recreation facilities, health care and schools. Expenditures are planned for the following priorities.

| Program | Total Capital Budget ($M) | Percent |
|---|---|---|
| Public Safety | $ 139.6 | 11.3% |
| Economic Development &Infrastructure | $ 428.0 | 34.7% |
| Schools | $ 191.5 | 15.5% |
| Parks & Rec. Facilities | $ 130.4 | 10.6% |
| Municipal/Historic/County | $ 90.6 | 7.3% |
| Library | $ 40.8 | 3.3% |
| Health and Hospitals | $ 213.4 | 17.3% |
| Total Capital Investment | $1,234.3 | 100.0% |

The current capital plan includes more than 925 projects, with over half already completed or in construction. Completed projects range from new and reopened police stations and recreational facilities, to roof replacements, street repairs, and

renovated health facilities and school buildings. Projects in the design or construction stage include a new $62 million state-of-the-art police headquarters and a series of repair and reconstruction projects for the schools. A new inpatient facility for Boston City Hospital is the single largest capital project in the City's history, totalling over $153 million.

The $1.23 billion of capital expenditures is supported by revenues from general obligation (GO) and revenue bonds, state and federal funds, trust funds, and private sector contributions. During the past seven years, the City has successfully sold $479.8 million of GO bonds to support the capital plan. Boston's success in the capital markets reflects investors' growing confidence in the City's financial condition. Once again, the City was rewarded for its fiscal management as the two premier credit rating agencies reaffirmed the City's "A" credit rating.

Revenues are proposed from the following sources:

| Source | Percent |
|---|---|
| General Obligations Bonds | 70.3% |
| Revenue Bonds | 12.4% |
| Federal Revenues | 7.6% |
| State Revenues | 8.4% |
| Other Funds | 0.7% |
| Trust | 0.6% |
| TOTALS | 100.0% |

The current capital budget projects the need for an additional $250 million of GO bonds over the next five years. The amount to be borrowed in any one year will be determined by a variety of factors: cash needs, market conditions, and constraints imposed by the 1986 Federal Tax Reform Act.

### Capital Planning Statistics

- Expenditures FY93 - FY97: $463.4M
- Net Debt Outstanding 6/30/92: $558.4M
- Current Bond Rating: A
- Net Debt/Assessed Value: 2.5%

## Summary

The effort to coordinate capital and operating budget and planning priorities is one of many initiatives designed to improve the City's financial management and service delivery. The assessment of City debt service requirements, and the establishment of a procedure to identify operating costs associated with the undertaking of a capital and operating grant application, are control mechanisms that enhance the City's ability to operate effectively and ensure that Boston's sound financial management continues.

Sources: Rebuilding Boston: A Five-Year Capital Plan. February, 1993; Rebuilding Boston: A Five-Year Capital Plan. February, 1991; Rebuilding Boston: A Five-Year Capital Plan. March, 1990; Rebuilding Boston: A Five-Year Capital Plan. Vol. 2. January, 1989; Rebuilding Boston: A Five-Year Capital Plan. September, 1987; Investing in Boston's Future: A Five-Year Capital Plan. September, 1985.

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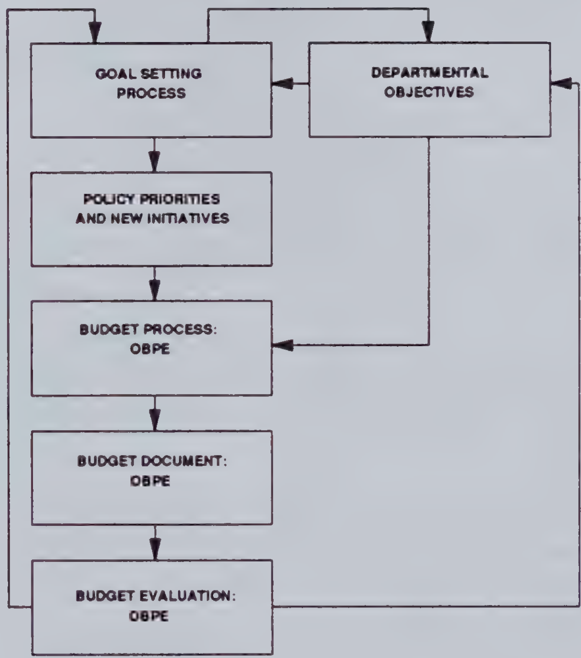
# GOAL SETTING FOR THE CITY OF BOSTON

As recommended by the 1986 Mayor's Management Review Committee, the Mayor's Office established an annual City-wide goal setting process. In consultation with the Mayor's Office, each department in the City develops policy guidelines prior to the formulation of its fiscal year budget.

The goal setting process facilitates more effective strategic planning and interdepartmental coordination within the City. It also opens clear lines of communication between departments and the Mayor's Office and provides department heads with direct input into the policy making process of the City. The goals set in this process then shape meaningful objectives and performance measures included in the program budgeting and program evaluation functions performed by the Office of Budget and Program Evaluation (OBPE).

It is particularly important, in a year when resources are limited, to ensure that funding is directed toward mayoral priorities. As such, special focus is given to goals which control costs while achieving the priority objectives of the Mayor's Office. Emphasis is given to goals which are central to the mission of each department.

HOW THE GOAL SETTING PROCESS FITS INTO THE BUDGET PROCESS




## How The Goal Setting Process Fits Into The Budget Process

The goal setting process produces a set of criteria and specific objectives which guide the annual work plan of each City department. The work plans directly reflect mayoral priorities and provide a mechanism for converting policy priorities into clear and attainable programmatic objectives.

This year, the Mayor's Office has continued a City-wide goal setting process which is effectively incorporated into the budget process. Departmental services related to a priority goal are assigned measures of performance which are included in the FY94 budget. Through increased cooperation with OBPE, the goal setting process results in the establishment or continuation of priority departmental objectives linked directly to funding decisions.

## How The Goal Setting Process Works

The goal setting process initiates the coming year's budget cycle and continues through the monitoring of results to inform decision-making for the next budget cycle. Goal setting for FY94 began in the

late fall of 1992, in coordination with the budget planning process. The goal setting process includes the following steps:

- Mayor's Office staff works with the Office of Budget and Program Evaluation to refine procedures to link the goal setting process with the budget process. This includes issuing joint instructions, offering joint training sessions, and frequent formal and informal exchanges of information;
- Department heads submit proposed goals for FY94 to the Mayor's Office, identifying mandated and discretionary service level changes and proposed initiatives;
- Mayor's Office staff meets with each department head to discuss FY94 goals and progress on FY93 goals;
- Based upon these discussions, the Mayor's Office agrees to a set of priority objectives and performance measures for each department, and coordinates initiatives involving other departments in the City;
- Department heads review and approve their departmental priority objectives, commit to the level of involvement and assistance to be provided for interdepartmental initiatives, and prepare a budget request incorporating the funding decisions commensurate with the established priorities;
- The Office of Budget and Program Evaluation works with each department to ensure appropriate levels of funding for identified priorities, to track the overall fiscal impact on the City budget for further mayoral review, and to include the agreed-upon performance measures in the program budgets;
- The Mayor's Office monitors progress toward these goals throughout the year;
- The Mayor's Office also organizes committees to address key interdepartmental policy initiatives and to monitor progress on these initiatives throughout the year.

## Accomplishments of the Annual Goal Setting Process

After six years of implementing a formal policy goal setting process, the following successes are evident:

- A clear link exists between the primary purpose of each department and its fiscal year goal(s);
- Budget reduction decisions have been based on clear Mayor's Office direction on mayoral priorities;
- A focus has been placed on cost control as part of achieving mayoral goals;
- A more responsive relationship has evolved between the Mayor's Office and City departments;
- Departmental goals are linked directly to mayoral priorities and to the programmatic performance measures included in the budget document;
- The goal setting process has improved the selection and definition of the performance measures contained in the budget document;
- Interdepartmental working committees are coordinating efforts to address overlapping areas of responsibilities;
- A coordinated monitoring system has been formed to evaluate progress toward the key goals established by department heads; and
- Key City-wide management goals have been highlighted.

In FY94, the Mayor's Office will continue to work closely with the Office of Budget and Program Evaluation to build upon these accomplishments. The goal setting process will continue to drive strategic City planning, coordinated City management, and more effective program budgeting.

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# BOSTON'S PROGRAM BUDGETING AND PROGRAM EVALUATION SYSTEM

In 1986, Mayor Flynn created the Policy Office (now functioning directly within the Mayor's Office) and the Office of Budget and Program Evaluation (OBPE). These new offices addressed a pressing need to improve goal setting and performance monitoring to help make City services more efficient and effective. The implementation of a formal process for incorporating mayoral priorities within the budget process and for holding departments accountable for service delivery has placed Boston in the top tier of major cities recognized for excellence in budget management.

## OFFICE OF BUDGET AND PROGRAM EVALUATION: MISSION AND GOALS

The Office of Budget and Program Evaluation has six ongoing goals.

- To refine City-wide program budgeting, to manage a comprehensive City-wide program evaluation system, and to ensure effective linkage between these systems.
- To maintain a cooperative and effective working relationship with the Mayor's Office to ensure close linkage with the Mayor's Office's goal setting process.
- To continue and improve upon necessary budget expenditure controls.
- To continue and improve upon revenue monitoring and revenue enhancement efforts.
- To provide staff support and advice to the Mayor and key mayoral advisors on an issue-by-issue basis.
- To enhance OBPE's professional standards, recruit and retain top quality professional employees, and meet affirmative action goals.

## THE EVOLUTION OF PROGRAM BUDGETING AND EVALUATION

Since its inception in late 1986, OBPE has undertaken a deliberate yet evolving process to incorporate a program budgeting and evaluation system into the routine of department planning and management. For the first three years of program budgeting implementation (FY88, FY89, and FY90), OBPE efforts focused on basic changes in the City's budgeting mechanisms. These three fiscal-year iterations were required to achieve the following:

- Training and discussion at the departmental level to help City managers to think of programs as distinct management units and to develop and accept program performance measures;
- Modified accounting and budgeting systems to reflect program-based budgeting;
- Establishment of baseline performance data so that comparisons between past and promised service levels would be possible.

THE CHANGING BUDGET DOCUMENT—The successful implementation of program budgeting is evident in the improvements made to each budget document, as the City's budget became a key means of communication with the public on the use of resources to achieve common goals:

FY88 Operating Budget

- Funding allocated by program
- Initial performance measures for each program

FY89 Operating Budget

- Authorizing statutes and ordinances for each department
- Organization charts showing program functions
- Program information presented to coincide with published progress reports, for comparisons of expectations with past performance
- Additional volume on resources from external funds utilized by particular City departments

FY90 Operating Budget

- Improved performance measures reflecting actual experience of past years
- More complete information on resources from external funds
- Mayoral goals tied directly to performance objectives

In the succeeding budgets for FY91, FY92, and FY93, OBPE attempted to stabilize the program budgeting and evaluation system to allow for direct comparisons of services and resources over time. The Operating Budget now provides more background information on program statistics, but contains fewer, more streamlined performance measures to highlight outcome-specific results of program activities.

Improvements are still ongoing, with the FY94 Operating Budget adding a table to illustrate historical levels of service for key performance indicators along with actual funding and staffing levels in a department. These and other improvements underway have kept the City of Boston on the cutting edge of public budgeting developments that are becoming increasingly important to financial, business, and general public constituencies in their demand for better accountability for government expenditures.

## IMPROVED MONITORING OF PERFORMANCE, EXPENDITURES, AND REVENUES

In the same way that the budget document has evolved over this time, OBPE's monitoring and management of the City's resources has also developed.

PERFORMANCE MONITORING—Since FY88, OBPE has maintained a performance monitoring system, based on monthly reports from each department on progress toward annual objectives. Information from these reports has been published biannually (or quarterly as resources allowed) for each of the six years monitored to date.

OBPE also checks the accuracy of the information received from departments on the monthly reports, to ensure a level of confidence in the information collected and disseminated. These measurement verification reports evaluate the systems used to collect the performance data within the department. Findings are conveyed to the relevant department managers for corrective action, if necessary. These reviews are unannounced and somewhat random by definition, but OBPE attempts to verify an additional 5-10% of all reported performance measures each year.

At the end of each fiscal year, OBPE produces the Mayor's Management Report. The Mayor's Management Report summarizes the major activities of each department, and compares performance during the year against historical and planned service levels. Each department's achievement regarding three key City-wide management goals (managing attendance, controlling lost days due to injury, and timely processing of vendor payments) is included. The Mayor's Management Report completes the performance monitoring cycle, to hold every department accountable for the promises made in the budget document.

MONITORING PROGRAM EXPENDITURES—Since the initial allocation of costs by

program in FY88, refinements have been made to improve the link between resources and performance. The distribution of monthly overhead charges, such as telecommunications, equipment purchases, and central printing, copying and postage services is now broken down by program. Staff payrolls and contracts with vendors are also allocated to appropriate programs by departments, to better account for key resources required to achieve specific program objectives.

OBPE continues to improve budget controls to ensure that spending levels are planned for and justified. In particular, OBPE monitors overtime expenditures and, with the Office of Personnel Management, controls the hiring of emergency employees and the filling of vacancies. Specific City policies regarding out-of-state travel, equipment purchases, outside printing requests, and non-public safety vehicle use are enforced. In addition, OBPE works with the Auditing Department to ensure the appropriateness of all public expenditures.

MAJOR FIXED COSTS AND REVENUE MONITORING — OBPE has become actively involved in a range of issues related to the City's fixed costs, in order to better project both revenues and expenditures affected by these issues. OBPE has, for example, regularly monitored pensions issues, especially as they relate to the state's Pension Reform Act of 1987, and debt service matters. These areas make up more than 80 percent of the City's fixed expenditures. OBPE has also undertaken in-depth studies of major expenditure items, such as employee health benefits.

Improved revenue monitoring has been achieved in several ways. OBPE researches and analyzes all relevant data in attempting to produce accurate revenue projections on which to base the next year's budget. In addition, OBPE carries out, on a monthly basis, a detailed review of revenues received, as compared with revenues projected, in order to maintain a complete picture of the City's current fiscal situation on a day-to-day basis. The Office also extensively monitors Commonwealth activity that affects both City revenues and expenditures.

## THE PROGRAM BUDGET CYCLE

Program budgeting and evaluation is an iterative process which builds on commitments, performance, and improved management systems in the previous years. The elements in this process are described below in the sequence in which they occur in the program budgeting calendar for the following fiscal year.

GOAL SETTING (November -- January) The City institutes its annual goal setting process in the late fall. As described in Section 7 ("Goal Setting for the City of Boston"), the Mayor's Office reviews accomplishments in the past year, reviews performance toward current objectives, and defines major Administration goals for the coming year. Performance measures are refined or established by which progress on key initiatives can be monitored. This goal-setting provides important policy direction to the budgetary decisions that follow.

BUDGET PREPARATION (November-April) Budget preparation begins simultaneously with the Goals process but extends long enough to incorporate the results of that process. Budget preparation first involves a detailed analysis by each City department of its need for funds and personnel to carry out its mandate in the fiscal year beginning the following July. In addition, departmental staffs review current performance levels, planned improvements or necessary reductions in services, to establish performance standards that will ensure careful management of ongoing activities. All departmental budget requests are due to be submitted to OBPE by late January.

In light of the severe constraints on City resources caused by the state's unwillingness to recognize the crumbling municipal financial structure, the City's decision-making process followed for the last four budget cycles has been driven by a shrinking revenue base. Each department is asked to prepare a proposed budget within a "target" funding amount and to indicate how services would be affected given

the priority-setting guidelines of the mayoral goals established for the year.

OBPE reviews each departmental budget request for the accuracy of expense projections and corresponding service levels. At the same time, OBPE is projecting anticipated revenues for the coming fiscal year based on the extensive monitoring of current revenue streams, state and federal legislative initiatives, and changes in the national, state, and local economy.

Once revenue projections are refined and the full scope of departmental plans are identified, a proposed budget is prepared. Funding decisions are a function of total available revenues, mayoral priorities, and prior years' performance. The Mayor's Operating Budget includes not only recommended appropriations for each City agency, but also commitments as to levels of service to be accomplished with this funding. By statute, the recommended budget is submitted to City Council on the second Wednesday in April.

BUDGET APPROVAL (April-June) The City Council reviews and approves the Mayor's recommended budget. The Council has the authority to decrease or reject individual elements within the proposed budget, but may not authorize increased appropriations. (The School Department budget follows a somewhat different schedule and review process.)

IMPLEMENTATION (July 1-June 30) City departments use the funds and personnel approved in the adopted budget to carry out the activities and provide the services outlined in the budget.

REPORTING AND ANALYSIS (July 1-June 30) City departments report regularly on progress toward annual goals and promised service levels. The Mayor's Office monitors City-wide progress toward mayoral goals. OBPE monitors and analyzes service level performance and expenditure of appropriated funds through variance analyses, program progress reports, and measurement verification reports. This monitoring provides key City managers with ready access to both overall and specific departmental performance. This information is then incorporated into the next annual budgeting cycle.

## SUMMARY

The submission of the FY94 Operating Budget reflects the seventh year of "implementing" program budgeting and evaluation. It also represents the fourth consecutive year of utilizing this system in the process of deciding on cutbacks based on scarce City revenues. While such decisions are difficult ones, the program budget format provides a much clearer picture of the impacts, consequences, and priorities presented in this Proposed FY94 Budget.

Given the increasing demands on government to be more effective and efficient in the delivery of services, the City's program budgeting and program evaluation system is moving beyond the basic presentation of priorities and resource allocations. OBPE continues to research and experiment with new developments in municipal budgeting, including improved applications of program evaluation for examining alternative service enhancements, new budgeting methods to encourage innovation, and the problems and benefits of unit cost reporting. With the high level of accountability already in place under the existing program budgeting and program evaluation system, the City of Boston stands ready to meet the public's demands for a more responsive and responsible government.

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# BOSTON — ITS ECONOMY, PEOPLE AND NEIGHBORHOODS

As a major regional center, Boston's economic and social well-being is important not only to its 600,000 residents, but also to the surrounding area. Boston's economic and social activity is a driving force in Massachusetts and indeed, in the entire New England region.

Boston provides a wide range of services not only to its residents but also to hundreds of thousands of daily commuters, students, and tourists. Meeting these "outside" needs presents a significant challenge; particularly when many Boston residents and neighborhoods did not share in the general renaissance of the Massachusetts economy during the 1980's and then suffered disproportinately from the effects of the recent recession.

## BOSTON'S ROLE IN THE REGIONAL ECONOMY

The City of Boston is the metropolitan center of the Commonwealth and the New England region. Boston has one of the largest concentrations of population, employment, and income in the nation, and its leadership assisted the region in surpassing the national average on several important measures in the years between 1976 and 1988. However, beginning in 1989 the economy experienced a significant downturn. Regional unemployment, which had remained below the national rate between 1978 and 1989, was consistently 10 to 15 percent above the national average during 1990 and 1991.

Commuting patterns highlight the City's influence in the metropolitan region. Boston makes up 9.5 percent of the state's population, yet it accounts for 16 percent of all jobs and 23 percent of all goods and services produced in the state. More than one in four working residents of the 25 cities and towns with the highest per capita income in the Commonwealth — a total of 212,468 persons — had jobs in Boston.

Boston's Logan International Airport was the twelfth busiest in the U.S. in 1991, with more than 6,000 domestic and 500 international flights per week. It was ninth busiest in passenger volume. In FY92, the Port of Boston, serving the six-state New England region, handled over 1 million tons of containerized cargo and 17 million tons of bulk cargo worth over $8 billion. Boston's public transportation system reaches into the many neighborhoods and links to the regional commuter rail system, connecting three million people to the central city. The road system provides access to commuters through surface arteries and three limited access interstate highways: the Massachusetts Turnpike, and two circumferential routes, ten and twenty-five miles out from the City. These are bordered by major industrial parks and high-technology industry.

## BOSTON'S ECONOMY

*The Changing Nature of Boston Jobs.* On average, Boston appears to have the state's better paying jobs, although many of these jobs are not held by Boston residents. Wages earned, by place of work, have been consistently higher in Boston than in the metropolitan area and the Commonwealth as a whole during each year between 1980 and 1990. Except for manufacturing and wholesale trade (industries with a diminishing share of employment in the City), wages in Boston were higher than the Commonwealth average for all types of industry. For all industries combined, the City's average wage of $30,922 was 11.5 percent greater than the

metropolitan area average and 19.2 percent greater than the state average.

Between 1986 and 1990, total employment in the City decreased by 8,654. The five industries experiencing the largest percentage decrease in employment between 1980 and 1990 were manufacturing, wholesale trade, and transportation, communication and utilities. (See Figures 1 and 2.)

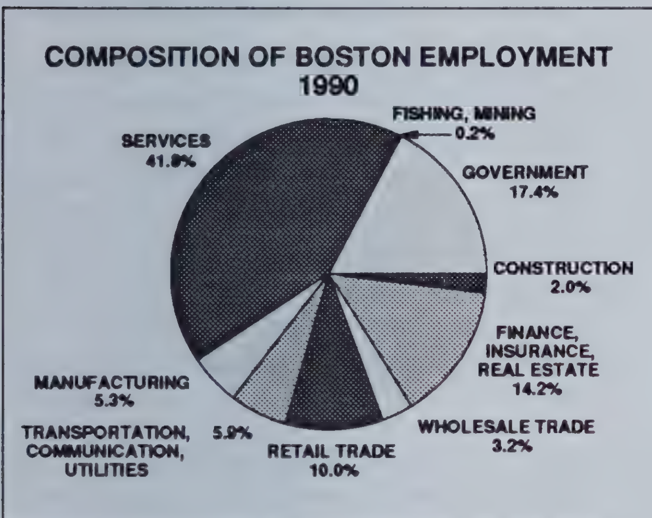


Figure 1

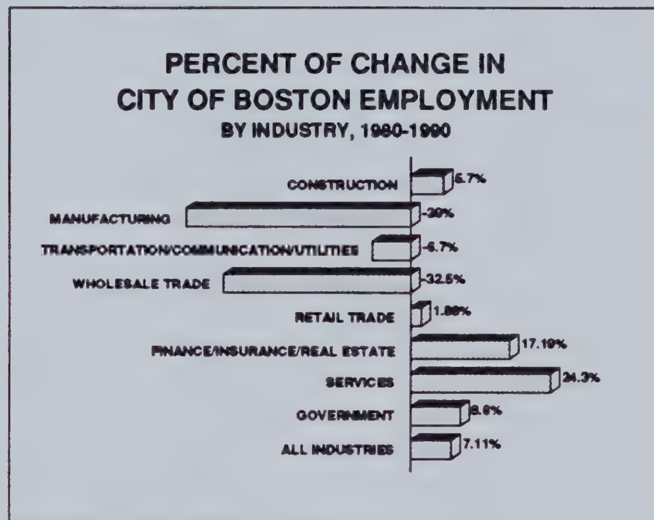


Figure 2

The City's basic economic diversity, combined with a shift to financial, professional, and business services, has made Boston's economy less susceptible to industrial business cycles, and consequently more stable than cities with large manufacturing sectors.

*Finance, Health, and Education Industries.* Boston is a major financial, educational, and medical center. Of Boston's ten largest employers, nine are in the financial services, health, and education sectors. During the period 1986 to 1990 these industries expanded their share of the City's total employment from 60 to 62 percent. There are more than 1,000 financial institutions located in the City. Boston is a major venture capital center and has the distinction of being the birthplace of the mutual funds industry. In addition, the City has 36 universities, colleges, and community colleges as well as 26 career or technical schools. Combined, these have an enrollment of more than 125,000 students. The City has a higher ratio of students to population than any other major U.S. city.

Boston also is home to 26 hospitals, which provide 47,862 full-time jobs and an annual payroll of over $1 billion. Boston hosts the medical and dental schools of Harvard, Tufts, and Boston Universities. The City also has 30 local community-based health centers. Six are affiliated with Boston City Hospital (BCH), and most of the others receive some funding from BCH.

However, the non-profit status of these educational, cultural, and health service institutions means they receive the full range of basic City services at no cost. Fifty-one percent of Boston's property is tax exempt.

*Construction Activity.* During the last two decades, public and private construction have played an important part in transforming the City's economic base. Since 1975 the private sector has added 16 million square feet of building space — five times more than was added during the preceding 35 years. This period saw record construction of office space, and substantial increases in the number of hotel rooms, medical, and educational facilities.

Construction will continue to play a major role in the area's economy. The Boston Harbor clean-up

project, the depression of the Central Artery, and the construction of the Third Harbor Tunnel are major efforts that will continue unprecedented levels of post-WWII construction activity. However, while these projects will generate employment and provide opportunities for local contractors, they will not add to the taxable property base.

## BOSTON'S PEOPLE — A CHANGING URBAN POPULATION

*Income Growth and Economic Disparity.* Per capita income in Boston increased from $10,359 in 1980, to $15,584 in 1985, to $21,676 in 1989. Although Boston's per capita income remains below that of the metropolitan area and the state, the City has been making relative gains. Data available since 1982 show that the City's per capita income rose at a faster rate than in the metropolitan area, the state, the New England region, and the U.S. as a whole.

The City's median household income has been rising in recent years as well, from $12,530 in 1980, to $19,250 in 1985, and to $29,180 in 1990. As expected, white households, male-headed households, and non-elderly households have higher incomes than minority, female-headed, and elderly households, respectively. The most important source of income for both non-poor and poor households is salary and wages.

Despite increasing prosperity, Boston is a city of income contrasts. Average household income in Boston was $37,907 in 1990, but 21 percent of Boston households had incomes of less than $10,000, while 42 percent of households had more than $35,000 in annual income.

In 1989, 18.7 percent of all residents were living below the official poverty line. Poverty rates in Boston are higher among children, single parent families, minorities, and recent immigrants to Boston. More than 30 percent of the residents of South Boston, Jamaica Plain, Roxbury, and Dorchester live in households with incomes below the poverty line. On the other hand, fewer than 9 percent of the residents of Central Boston, Back Bay-Beacon Hill, Roslindale, West Roxbury and Hyde Park live in poor households.

*Unemployment in Boston.* Since 1982 and until recently, unemployment in the City had steadily declined. In 1980, unemployment averaged 6.1 percent, down from a high in 1975 of 12.8 percent. The unemployment rate had remained below the national average in each of the years since 1980. In 1987, the Boston unemployment rate was 3.2 percent, the same as the state-wide average, and well below the national level of 6.2 percent. Since 1989, however, the state, metropolitan, and City unemployment rates have increased. In September, 1991, the City's unemployment rate was 7.2 percent, a rise from 5.5 percent a year earlier and at a level above the 6.7 percent national rate. September, 1992 data show that Boston's unemployment rate of 7.6 percent remained higher than the national average of 7.4 percent but below the Massachusetts rate of 8.5 percent. A survey of City households conducted in the spring of 1985 reported a minority unemployment rate that was double the City's overall average, and a youth unemployment rate about triple the City-wide average.

*The Recession and the Local Economy.* The beginning of the nineties saw the downturn of what was clearly an overheated local economy, fueled in large part by unsustainable and speculative real estate values. Strong demand in Boston and the surrounding area during the late 1980's caused rapidly increasing housing prices, higher rents, and corresponding increases in the CPI since 1983. The recession, combined with large real estate losses in the financial sector, reversed this trend. As a result, the median sales price of existing single family homes in Boston fell 3.3 percent during the period 1989 to 1991, compared with an increase of 9.3 percent in the nation as a whole. Between November, 1989 and November, 1991, the cost of living in the Boston area rose 9.16 percent; this increase was 3 percent less than the 9.45 percent increase in the nation as a whole.

*A Stable and Diverse Population.* Boston's population reached its low point in 1980, when it had fallen by almost a third from its peak of

801,000 in 1950. Between 1980 and 1990 the City of Boston experienced comparatively even population growth. This level population growth has been partially credited for the extraordinary wage increases and low unemployment rates of the eighties. The 1990 Census recorded the City's population at 574,283, representing a slight 2 percent increase over the City's 1980 population of 562,994. Projections made in 1991 forecast a further increase of slightly more than 2.5 percent over the next ten years (Figure 3.)

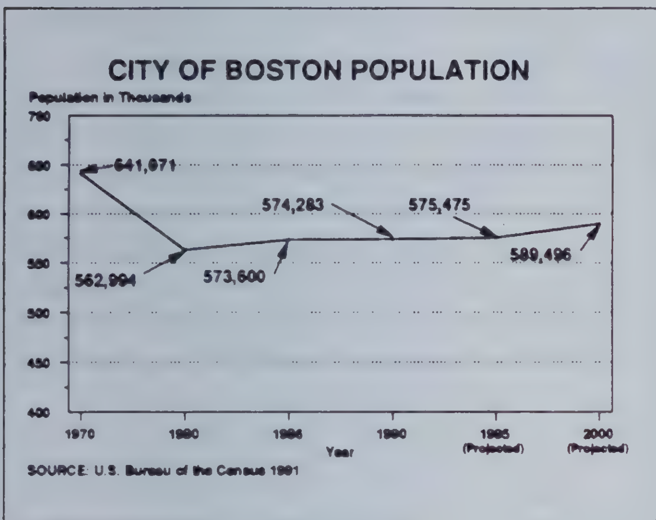


Figure 3

The level Census figure has occurred despite several factors which normally are expected to increase population. Among these are the improvement of neighborhood housing conditions, a rising birth rate in Boston since 1977, an influx of immigrants from Asia, a new flow of immigrants from Ireland, and the move of "empty nesters" from the suburbs into Boston. Further, lower property taxes, an improved racial climate in the City, and enhanced amenities made Boston a more attractive place to live. On the other hand, some new immigrants are especially in need of City support services to help them adapt to life in the U.S.

The population of Boston is increasingly made up of young adult and middle-aged groups. In 1990, the median age in Boston was 30.3 years, 10 percent younger than the Massachusetts median. This mirrors national patterns. For example, the number of children aged 5 to 14 years old declined between 1985 and 1990 from 11.6 percent to 9.9 percent of the population, while the 35-44 year old population increased from 9.4 percent to 13.6 percent of the total. During the period 1985 to 1990, Boston residents who were age 65 or older increased from 11 to 13.7 percent.

Household size in Boston is stabilizing after a long decline. While in 1970 average household size was 2.76 persons, it declined to 2.4 persons in 1980. The 1990 Census showed an average 2.37 persons. The proportion of households made up of families (rather than unrelated individuals) had decreased to 50.7 percent of total household units in Boston in 1990, after declining from 65 percent in 1970 to 53 percent in 1980, again reflecting national trends.

Boston maintains a rich cultural heritage. The range of ethnic backgrounds and countries of origin shows the growing diversity of Boston's population. While Irish, Italian, and other European ancestries predominate in most neighborhoods, persons of Haitian, West Indian, Middle Eastern, African, Chinese, and other Asian heritages make up more than 10 percent of the population in some neighborhoods.

During the period 1980 to 1990, Boston's minority population has increased in proportion to whites. The racial shifts are profound. Boston's minority population comprised 30 percent of the total City population in 1980, and grew to 41 percent in 1990. Since 1980, while the African-American, Asian and Pacific Island, and Hispanic populations have continued to increase, the white population has declined 11.4 percent. This reverses a trend during the period from 1970 to 1980, when there was a substantial influx of 25-34 year olds who were mainly white middle class professionals, resulting in a net population growth in the more centrally located neighborhoods even while the overall City population was falling.

The proportion of persons speaking a language other than English tends to follow the patterns of ancestry and country of birth by neighborhood.

While 80 percent of Bostonians speak English at home, other languages frequently spoken at home are Spanish (6 percent), French and Creole (3 percent), Italian (2 percent), and Chinese (2 percent). Other languages comprise the remaining 7 percent non-English languages spoken at home.

*Boston's Neighborhoods*. While Boston's population of 600,000 lives in a City of only 43 square miles, its neighborhoods are diverse. Based on a 1985 BRA survey, neighborhoods vary significantly in average age and family status. "Older family" neighborhoods include East Boston, Charlestown, South Boston, Central, and West Roxbury. In these neighborhoods, up to 40 percent of the family units are husband-wife families with about half having children, about 5 percent are other families most of which have children, and the rest are unrelated individuals and roommates. "Younger family" neighborhoods include Mattapan, Roslindale, and Hyde Park, with nearly 40 percent of family units made up of husband-wife families with children. West Roxbury, while more diverse in family age groups, has about one-third of its family units consisting of husbands and wives with children.

"Mixed neighborhoods" include Jamaica Plain, North and South Dorchester, and Roxbury; in these neighborhoods between one-third and one-half of the family units are unrelated individuals, with the rest roughly evenly divided between husband-wife and other families. "Young singles" neighborhoods include Fenway-Kenmore and Allston-Brighton; about 80 percent of the family units here are individuals, with about half living alone and half with unrelated roommates. The "young to middle aged singles" predominate in Back Bay-Beacon Hill and the South End; again, 80 percent of the family units are made up of unrelated individuals with about 60 percent living alone.

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proved budget to the mayor who may approve or reduce the total recommended budget. Thereafter, not later than the second Wednesday in May of each year, the mayor shall submit said budget to the city council for an appropriation of funds. Said superintendent shall approve the appointment of any person except to a budgeted position."

*Section 2 of Chapter 224 of the Acts of 1936, as amended by Chapter 613 of the Acts of 1987* further states that "(a) the city of Boston shall annually provide an amount of money sufficient for the support of the public schools as required by law; provided, however, that said city shall not be required to provide more money for the support of the public schools than is appropriated in accordance with the provisions of chapter four hundred and eighty-six of the acts of nineteen hundred and nine, as amended. In acting on appropriations for educational costs, the city council shall vote on the goal amount of the appropriations requested by the mayor, but neither the mayor nor the city council shall allocate appropriations among accounts or place any restriction on such appropriations. The appropriation of said city shall establish the total appropriation for the support of the public schools, but may not limit the authority of the school committee to determine expenditures within the total appropriation; provided, however, that if the city auditor determines that school department expenditures in any fiscal year are projected to be in excess of total budgeted expenditures for that fiscal year, as supported by appropriation and other available funding, then the school committee shall not reallocate or transfer funds from any item in the budget for that fiscal year to fund any such projected additional expenditures.

"(b) After the fourth Wednesday of March of any fiscal year, the school committee shall not initiate or authorize any new or additional programs or categories of expenditures requiring additional unbudgeted expenditures unless such programs or categories have been incorporated and fully funded in the budget for the subsequent fiscal year. If such programs or categories have not been incorporated and fully funded in the budget for the subsequent fiscal year, they shall not be initiated or authorized until the school committee shall have amended its budget submission for the subsequent fiscal year to reduce or eliminate other costs, programs or categories in amounts equal to the projected annualized costs of the new or additional programs or categories of expenditures.

"(c) The superintendent of schools shall prepare and submit to the school committee, the city auditor and the city office of budget and program evaluation, a monthly budget update report which shall detail and itemize year-to-date and projected school department expenditures and budget transfers."

## SCHOOL DEPARTMENT FINANCIAL AFFAIRS

*Section 1B of Chapter 231 of the Acts of 1906, as amended by Chapter 613 of the Acts of 1987* notes that "(t)he school committee may delegate, in whole or in part, to the superintendent of schools the authority to approve for the school department the acceptance and expenditure of grants or gifts of funds from the federal government, charitable foundations, private corporations, individuals, or from the commonwealth, its counties, municipalities or an agency thereof, the provisions of section fifty-three A of chapter forty-four of the General Laws notwithstanding.

"(b) The superintendent of schools shall provide to the school committee, the city auditor and the city office of budget and program evaluation of the city of Boston a report, detailing the source, purpose and balance on hand of all funds received or expended pursuant to subsection (a), quarterly."

*Section 2 of Chapter 231 of the Acts of 1906, as amended by of Chapter 613 of the Acts of 1987* states that "(s)ubject to appropriations therefor, the superintendent of schools shall have the exclusive authority to make on behalf of the school committee contracts, or amendments to contracts, for the purchase or rental of equipment, materials, goods or supplies, leases of property, alterations and repairs of school property, and for professional or other services, with the exception of collective bargaining agreements and contracts for the transpor-

tation of students. All school department contracts or amendments to contracts shall otherwise conform to the requirements of the city charter of the city of Boston.

"(b) With respect to all contracts, agreements or amendments thereto made or entered into by the school department, the superintendent shall be responsible for establishing procedures for auditing and monitoring the compliance of the parties with the terms and obligations of such contracts, agreements or amendments thereto."

## RESERVE FUND

*Section 7 of Chapter 701 of the Acts of 1986* requires the creation of an operating budget Reserve Fund in order to deal with "extraordinary and unforseen expenditures." The section goes on to state that "prior to the date when the tax rate for a fiscal year is fixed, include in the appropriations for such a fiscal year as a segregated reserve fund a sum not less than two and one-half percent of the preceding year's appropriations for city and county departments, excepting the school department...

"The mayor, with the approval of the city council, may make direct drafts or transfers against this fund before the close of the fiscal year, provided that no such drafts or transfers be made before June first in any fiscal year.

"Each transfer recommended by the mayor to the city council shall be accompanied by written documentation detailing the amount of such transfers and an explanation for the transfer...."

This section further notes penalty provisions for exhausting the Reserve Fund and provisions for stepping up the fund to the 2 1/2% level. The section requires a 1% contribution for FY87, 1 1/2% for FY88, 2% for FY89 and the full 2 1/2% starting in FY90.

The section then notes that "the school department shall establish a segregated reserve fund of not less than one percent of the current fiscal year's appropriations to the school department within ten days of final approval of such appropriations. No expenditures may be made from this (school department reserve) fund before May first in any fiscal year..." and "shall require the approval of the mayor and the city council."

## BUDGET ALLOTMENT PROCESS AND REALLOCATIONS

*Section 18 of Chapter 180 of the Acts of 1982, as amended by Sections 8 and 9 of Chapter 701 of the Acts of 1986* requires that "(o)n or before August first of each year, or within ten days of the annual appropriation order for such fiscal year whichever shall occur later, the city or county officials in charge of departments or agencies, including...the school department shall submit to the city auditor, with a copy to the city clerk...an allotment schedule of the appropriations of all personnel categories included in said budget, indicating the amounts to be expended by the department or agency for such purposes during each of the fiscal quarters of said fiscal year...(The allotment for the school department may not be greater than 20% for the first quarter, and not greater than 30% in each of the remaining three quarters.) (Allotments for city and county agencies may not exceed 30% for first or second quarters and for the third and fourth quarters may not be less than 21%.)

"Whenever the city auditor determines that any department or agency, including the school department will exhaust or has exhausted its quarterly allotment and any amounts unexpended in previous quarters, he shall give notice in writing to such effect to the department head, the mayor and the city clerk, who shall transmit the same to city council.

"The mayor, within seven days after receiving such notice, shall determine whether to waive or enforce such allotment. If the allotment...is waived or not enforced...the department or agency head shall reduce the subsequent quarter's allotments appropriately and the director of administrative services, within seven days, shall state in writing to the city council and the city clerk what reductions in each subsequent quarter's allotment will be taken or what reallocations or transfers will be made to support the spending level in each subsequent quarter's allotment. If the allotment for such quarter is enforced and not waived, thereafter

the department shall terminate all personnel expenses for the remainder of such quarter....

"No personal expenses earned or accrued, within any department, shall be charged to or paid from such department's or agency's allotment of a subsequent quarter without approval by the mayor, except for subsequently determined retroactive compensation adjustments.

"Approval of a payroll for payment of wages, or salaries or other personnel expenses which would result in an expenditure in excess of the allotment shall be a violation by the department or agency head....

"To insure that the overall city and county spending program remains in balance, the mayor may reallocate no more than three million dollars of non-personnel appropriations other than school appropriations during a fiscal year to other departmental purposes provided that in no department from which appropriations have been reallocated in accordance with this section shall any transfers be made...from personal services to non-personal services, except with the approval of a two-thirds vote of city council, if such transfer would require the layoff of departmental personnel, who have been permanently appointed to a position in the department....

"No reallocation may be made under this section after April fifteenth in any fiscal year.

"A list of each reallocation made by the mayor shall be transmitted to the city council and the city clerk by the city auditor by April thirtieth in any fiscal year. In each case the report shall state the accounts from which the transferred funds were taken and the accounts to which the funds were reallocated, and the reasons therefor."

## TRANSFER OF APPROPRIATIONS

*Section 23 of Chapter 190 of the Acts of 1982, as amended by Section 3 of Chapter 701 of the Acts of 1986* states that "(a)fter an appropriation of money has been made...no transfer of any part of the money thus appropriated, between such department or office and another department or office, shall be made, except in accordance with and after the written recommendation of the mayor to the city council, approved by a...vote of two-thirds of all the members of the city council, provided that the city auditor, with the approval in each instance of the mayor, may make transfers, other than for personal services, from any item to any other item within the appropriations for a department, division of a department or county office.

"After the close of the fiscal year, the city auditor may with the approval of the mayor in each instance, apply any income, taxes, and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose only of closing the accounts of such fiscal year, provided further that the city auditor within seventy days after the close of the fiscal year, shall transmit to city council and the city clerk a report listing what income, taxes, or funds were applied and what transfers were made and the reasons therefor."

## PENALTY FOR OVERSPENDING BUDGET

*Section 17 of Chapter 190 of the Acts of 1982 (Tregor)* states that "(n)o official of (the) city or county except in the case of extreme emergency involving the health and safety of the people or their property, shall expend intentionally in any fiscal year any sum in excess of the appropriations duly made in accordance with law, nor involve the city in any contract for the future payment of money in excess of such appropriations....

"Any official who violates the provisions of this section shall be personally liable to the city for any amounts expended intentionally in excess of an appropriation to the extent the city does not recover such amounts from the person to whom paid...."

## APPROPRIATION RESTRICTIONS

*Section 10 of Chapter 701 of the Acts of 1986* requires that "the mayor and city council shall appropriate for the hospitalization and insurance account an amount not less than the average of the past three years actual expenditures from those ac-

counts. The city auditor shall certify, in writing to the board of assessors, that adequate funds are provided in the operating budget for existing collective bargaining contracts...."

## DISPOSITION OF SURPLUS PROPERTY RESTRICTIONS

*Section 24 of Chapter 190 of the Acts of 1982, as amended by Section 4 of Chapter 701 of the Acts of 1986,* requires that "proceeds from the disposition of any surplus property shall be deposited in a separate fund which shall be known as the Surplus Property Disposition Fund, and shall be used only as follows: (1) the amount equivalent to the debt incurred, and interest paid or payable thereon, as a result of the acquisition or improvement from time to time of the property shall be used only for purposes for which the city is authorized to incur debt for a period of ten years or more; (2) all proceeds in excess of such amount shall be credited to the capital fund of the city unless the city council by a majority vote determines with the approval of the mayor to credit such proceeds to the general fund of the city."

## DUTIES OF SUPERVISOR OF BUDGETS

*CBC Ord. 5, s. 5* states that "(t)he supervisor of budgets shall, under the direction of the mayor and in consultation with the director of administrative services, prepare in segregated form the annual and all supplementary budgets...and shall report to the mayor on all subsequent revisions of the items in any budget....

"The supervisor of budgets shall also prepare...all transfer orders....

"The supervisor of budgets shall further prepare...the form of estimate sheets to be used by each officer, board and department, and each division of a department for which the city appropriates money, and the form of monthly report of such officer, board and department, and each division thereof, showing expenditures to date of all appropriations by them.

"The supervisor of budgets shall, in addition, have the powers and perform the duties conferred or imposed on the budget commissioner by any statute other than section 56 of chapter 35 of the General Laws."

SICUT PATRIBUS SIT DEUS NOBIS.
BOSTONIA.
CONDITA A.D.
1630.
CIVITATIS REGIMINE DONATA A.D. 1822.

# BUDGET ORGANIZATION AND GLOSSARY OF TERMS

The City of Boston's Program Budget provides a wealth of information related to City services and their associated costs. The Operating Budget presents recommended resource allocations in terms of personnel, facilities, and goods and services. It also describes the services provided by City and County departments, divisions, commissions, and other offices, and specifically identifies levels of services that will be provided by these entities in FY94.

This Chapter is a guide to the organization of the FY94 Operating Budget.

## ORGANIZATION OF THE VOLUMES

Volume I provides a City-wide review of information on the FY94 budget and on the context in which it is prepared. Sections include:

- an executive summary,
- financial trends,
- estimated revenues,
- a summary of the budget,
- the tax and appropriation orders,
- Boston's program budgeting,
- goal setting in the City,
- Boston's capital planning,
- financial management in the City,
- general laws and statutes governing the City,
- Boston's people and its economy, and
- the organization of the budget and a glossary of terms.

The budgets for each City and County department and for other appropriations are presented in Volumes II, III, and IV, as follows:

- *Volume II:* General Neighborhood Services: Departments A through O
- *Volume III:* General Neighborhood Services: Departments P through Z, and
- *Volume IV:* Support Services.

*Volume V* presents information on City departments' use of external funds from a variety of sources.

## THE BUILDING BLOCKS: PROGRAM BUDGETS

Activities and services of the City are grouped into "programs" for budgeting and management purposes. The budget for each department is presented on a program-by-program basis.

A "program" is defined as:

> "An organized group of activities, and the resources to carry them out, aimed at attaining one or more related objectives."

For the purposes of program budgeting and program evaluation, a program can consist of direct services to the public and neighborhoods of the City (police patrol or voter registration), or traditional City staff functions (administrative services or engineering and design).

Some City activities may not be defined as separate programs although they may be self-contained operations. For example, a fire station is not a separate program although it is a cost center, for accounting purposes, within the Fire Department's Fire Suppression Program.

While these program budgets serve as the basic building blocks of the budget, there are two additional organizational levels above the program level in the budget:

- *The Division Level:* for budgeted units within some departments, and
- *The Department Level:* which includes departments, commissions, and other offices.

The basic budget presentation is modified slightly depending on the structure of a department.

## UNDERSTANDING THE INFORMATION PRESENTED

Three basic components are used to present the FY94 budget. These are:

- Description of organization and services,
- Financial data, and
- Personnel data.

### Description of Organization and Services

This describes organizational missions, services, objectives, performance measurements, and service levels for FY94.

- *Mission statement:* The mission statements for departments, divisions, and programs are fundamental statements of purpose for a unit or program.
- *Description of Services:* These statements provide a general overview and examples of the major services that are provided by a department or division to the public, for public facilities, or for other units of government.
- *Objectives:* Objectives are major proposed accomplishments or activities. Objectives are usually more specific than "goals"; they are measurable, quantifiable, and time-bound. Generally, there is continuity between objectives from year to year.

  Objectives are numbered roughly in order of priority, and corresponding performance measures and service levels can be identified easily. An organization's most fundamental objectives are listed first, followed by objectives of a more temporary nature.
- *Performance Measures:* For every objective defined in the program budgets, at least one performance measure has been defined for determing the accomplishment of that objective.

  Performance measures are indicators of service provided. They include measures of workload, output, work or service quality, efficiency, effectiveness, and productivity. Some criteria for FY94 are the same as those in previous years; however, many have been refined to measure more accurately the objective being pursued.
- *FY94 Promised Levels of Service:* For each performance measure, the department or division indicates a level of service to be provided during the forthcoming fiscal year. The program, division, and department managers have promised to produce these service levels given the funding and personnel shown in the budget for FY94.

  In cases where the service level depends on an external factor (for example, the number of tax abatements or building permits applied for), the promised service level reflects the workload which the program is equipped to handle in an efficient and effective manner.

Departments or divisions report progress toward attaining these promised levels of service on a monthly basis. This progress is summarized publicly in a mid-year and final annual report.

### Financial Data

The financial data identify the major groups and object codes of expenditures (Personal Services/Overtime, Supplies and Materials/Food Supplies, etc.) and the historical expenditures and proposed appropriations in these groups and objects.

Two financial sheets are provided in the FY94 Operating Budget.

*History by Object Code:* The objects of expenditure are listed within six expenditure groups. Dollar amounts are shown for:

- FY91 actual expenditure,
- FY92 actual expenditure,
- FY93 appropriation,
- FY94 proposed appropriation, and
- The difference between the FY93 appropriation and the FY94 proposed appropriation.

*Program Summary by Object:* The expenditure objects are listed within the six groups, the department FY94 recommended budget is broken down by program, and totaled to the department level.

### Personnel Data

The personnel data show funding for permanent positions, including existing and proposed positions. Personnel data for departments, divisions, and programs are provided in the same format. All permanent positions are listed by salary grade within the department, division, or program. The total salary request is listed for these positions.

For each position shown, the following information is provided:

- *Position:* An abbreviation of the job title of the position.
- *Grade:* The code for the salary grade of the position.
- *Filled 3/10/93:* The number of full-time equivalent employees in this job title as of March 10, 1993.
- *Salary Requirement:* This column is used to show the currently authorized full-time equivalent personnel quota, and the total dollars needed to fund the quota.
- *Deletions:* The full-time equivalent number of permanent positions, and the total salaries, to be subtracted from the numbers in the "Salary Requirements" column.
- *Additions:* The full-time equivalent number of permanent positions, and the total salaries, to be added to the numbers in the "Salary Requirements" column.
- *Total:* The resulting quota and the total salaries allowed in the budget.

The total dollar, permanent personnel budget figure, shown at the bottom right of the personnel sheet, is then adjusted as follows:

- *Differential Payments:* These payments are amounts paid to employees in intermittent job titles and employees entitled to shift differential payments. This figure is an addition to salary requirements.
- *Collective Bargaining:* This budgeted amount represents funds available solely to meet projected wage increases due to collective bargaining agreements under negotiation.
- Other: These figures, where shown, cover other payments such as sick leave and vacation buy-back, longevity pay, etc.
- *Salary Savings:* These savings, subtracted from the salary requirements calculated, are either estimated amounts projected to result from employee turnover based upon historical experience, or savings as a result of personnel reductions.

## GLOSSARY OF TERMS

*Account Number:* The number by which the Auditor categorizes an appropriation. For budget purposes, also known as appropriation code.

*Accrual Basis:* The basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

*Allotment*: The amount which can be expended quarterly for personnel as determined by the terms of the Tregor legislation.

**Exhibit**
**Expenditure Groups, Codes, and Objects**

| Group | Code | Object |
|---|---|---|
| Personal Services | 0100 | Permanent Employees |
| | 0110 | Emergency Employees |
| | 0120 | Overtime |
| | 0160 | Unemployment Comp |
| | 0170 | Workers' Comp |
| Contractual Services | 0210 | Communications |
| | 0220 | Light, Heat, Power |
| | 0230 | Water and Sewer |
| | 0250 | Garbage/Waste Removal |
| | 0260 | Repairs: Buildings and Structures |
| | 0270 | Repairs and Service: Equipment |
| | 0280 | Transport of Persons |
| | 0290 | Miscellaneous Contractual Services |
| Supplies and Materials | 0300 | Auto Energy Supplies |
| | 0320 | Food Supplies |
| | 0330 | Heating Supplies and Materials |
| | 0340 | Household Supplies and Materials |
| | 0350 | Medical, Dental and Related |
| | 0360 | Office Supplies and Materials |
| | 0370 | Clothing Allowance |
| | 0390 | Miscellaneous Supplies and Materials |
| Current Charges and Obligations | 0450 | Aid to Veterans |
| | 0460 | Equipment Lease/Purchase |
| | 0470 | Indemnification |
| | 0490 | Other Current Charges |
| Equipment | 0500 | Automotive Equipment |
| | 0560 | Office Furniture and Equipment |
| | 0590 | Miscellaneous Equipment |
| Other | 0600 | Special Appropriation |
| | 0700 | Structures and Improvements |
| | 0800 | Land and Non-structural |

*Appropriation:* The legal authorization to expend funds during a specific period, usually one fiscal year. In Boston, the City Council is the appropriating authority.

*Base Budget:* A budget which describes the funding required to maintain existing levels of service or activity.

*Budget:* A formal estimate of expenditures and revenues for a defined period, usually for one year.

*Budget Amendment:* A change from originally budgeted quotas; the forms filed by departments with the Office of Personnel Management and the Office of Budget and Program Evaluation to justify these changes.

*Capital Budget:* A plan of proposed outlays for acquiring long-term assets and the means for financing those acquisitions. Normally financing is by long-term debt.

*Cash basis:* A basis of accounting under which transactions are recognized only when cash changes hands.

*Chargeback:* A method of assessing departments for costs incurred by them for which they are not billed directly. Charges for centrex telephone, postage, and printing are examples.

*Cherry Sheet:* A cherry-colored form showing all Commonwealth and county charges and reimbursements to a city or town as certified by the state Director of the Bureau of Accounts.

*Collective Bargaining:* The process of negotiations between the City administration and bargaining units (unions) regarding the salary and fringe benefits of City employees.

*Commission:* An appointed policy setting body.

*Credit Balance:* See departmental deficit.

*Credit Transfer:* The transfer of appropriations from one object code to another, within a department; the form used to effect such a change.

*Debit Transfer:* Moving actual expenditures from one object code to another within or between

departments; the form used for such moves. Usually used as a correcting entry.

*Department:* A major service-providing entity of City government, established by law.

*Departmental Deficit:* A condition which exists when departmental expenditures exceed departmental appropriations. Also refers to the overexpended amount and credit balance.

*Department Income:* Income flowing to a specific City department, usually as a result of user revenues applied for services rendered. Parking meter charges, building permit fees, and traffic fines are examples of departmental income.

*Division:* A budgeted sub-unit of a department.

*Encumbrance:* Funds set aside from an appropriation to pay a known future liability.

*Excise Tax:* A tax applying to a specific industry or good. The jet fuel tax and the hotel/motel occupancy tax are examples of excise taxes.

*Expenditure:* An actual payment for goods or services received.

*External Fund:* Money received by an agency which is not generated from City sources, such as grants or trusts.

*Fiscal Year:* The twelve month financial period used by the City which begins July 1 and ends June 30 of the following calendar year. The City's fiscal year is numbered according to the year in which it ends.

*Full-time Equivalent Position:* A concept used to group together part-time positions into full-time units.

*Fund:* An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources with all related liabilities, obligations, reserves, and equities, segregated to carry on specific activities or attaining certain objectives. Among the fund types used by the City are: General, Special, Trust, and Capital.

*GAAP:* Generally Accepted Accounting Principles. There are twelve basic principles of accounting and reporting applicable to state and local governments. These include the use of the modified accrual or accrual basis of accounting, as appropriate, for measuring financial position and operating results. These principles must be observed in order to provide a basis of comparison for governmental units.

*Goal:* A statement, in general terms, of a desired condition, state of affairs, or situation. Goals are long-term in nature, and are not usually directly measurable in themselves. The establishment of goals helps define the mission that agencies need to carry out.

*Grant Year:* The grant accounting period designated by the requirements of a specific grant.

*Headcount:* The actual number of full-time or full-time equivalent employees in a department at any given point in time. The headcount will change from time to time as employees are hired or terminated.

*Line Item:* See Object Code.

*Mission:* A fundamental description of what is done, including a general overview of the purposes and major activities of an agency or program.

*Modified Accrual Basis:* The accrual basis of accounting adapted to the governmental fund type, wherein only current assets and current liabilities are generally reported on fund balance sheets, and fund operating statements present "financial flow" information (revenues and expenditures). Revenues are recognized when they become both "measurable" and "available to finance expenditures of the current period." Expenditures are recognized when the related fund liability is incurred except for a few specific exceptions. All governmental funds and expendable trust funds are accounted for using the modified accrual basis of accounting.

*Object Code:* An expenditure classification according to the type of item purchased or service obtained; for example, emergency employees,

communications, food supplies, automotive equipment.

*Operating Budget:* A legally adopted plan for anticipated expenditures for personnel, supplies, and services in one fiscal year.

*Performance Measure:* An indicator of work and/or service provided. Measures can be defined for identifying output, work or service quality, efficiency, effectiveness, and productivity.

*Program:* An organized group of activities, and the resources to carry them out, aimed at attaining one or more related objectives.

*Program Evaluation:* The process of comparing actual service levels achieved with promised results; also refers to assessing, for the purpose of improving, the way a program operates.

*Program Objective:* A statement of proposed accomplishments or attainments. Objectives are short-term in nature and are measurable.

*Proposition 2 1/2:* A state-wide tax limitation initiative petition limiting the property tax levy in cities and towns in the Commonwealth to 2 1/2% of the full and fair cash valuation of the taxable real and personal property in that city or town. The statute also places an annual growth cap of 2 1/2% on the increase in the property tax levy.

*Quota:* The planned number of positions which can be funded by a department budget. This can refer either to specific titles or to the number of personnel funded in the entire department. The quota of positions will change, from time to time, by means of a budget amendment, approved by the Office of Budget and Program Evaluation and the Office of Personnel Management. The actual number of personnel working in a department at any one point in time may differ from the quota.

*Reallocation:* A transfer by the Mayor of up to $3 million authorized under the Tregor legislation, prior to April 15, to relieve departmental deficits, or meet unanticipated financial problems.

*Reserve Fund:* An appropriation for contingencies.

*Revenue:* Income received by the City.

*Salary Savings:* For budget purposes, an amount that will be saved from annual turnover of personnel in any department.

*Special Appropriation:* An authorization to expend funds for a specific project not encompassed by normal operating categories.

*Special Revenue Fund:* Used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or sources for major capital projects) that are legally restricted to expenditures for specific purposes. A special revenue fund is accounted for in the same manner as a General Fund.

*STAT:* Statutory accounting and reporting which is adopted by a legislative body of a governmental entity. The method of recording and reporting actual expenditures and revenues within a plan of financial operations that establishes a basis for the control and evaluation of activities financed through the General Fund. When the budget basis and basis of accounting are different, a governmental unit usually maintains its records on a budget basis.

*State Distributions:* All City revenue flowing from the state. Major categories include reimbursement for loss of taxes, educational distributions and reimbursements, funds for direct education expenditures, general government reimbursements and distributions.

*Sub-Object:* A detailed breakdown of an Object Code.

*Sub-Program:* A sub-program is defined discretely, for purposes of management, which along with other related sub-programs makes up a larger program.

*Supplementary Appropriation*: An appropriation submitted to the City Council after the operating budget has been approved, which must specify a revenue source.

*Third Party Payment:* Medical payments, usually from an insurance carrier to a health care provider on behalf of an injured or infirm party.

*Trust Funds:* Funds held by the City in a fiduciary role, to be expended for the purposes specified by the donor.

*Unliquidated Reserve:* A fund established at year-end, used to pay for goods and services received this year, but not billed until next year.